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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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With The Editors

A Practical Checkup

Many a man has been right on the stock market and lost money through being right too early. Others have correctly sized up conditions in a certain industry as ideal, have bought those stocks—and found that being correct was profitless because the market was afraid of something outside their sphere of judgment.

The point is that although theoretically the market can be wrong its mistakes cost it nothing and if you are bucking it either with an investment or a trade you can't be right until the market decides you are, however good the reasons for your opinion. A market decline when business conditions are good is as real as one in the midst of a depression. It may not last as long, but then again it may turn business downward and all the fundamental strength of the situation goes to waste.

The surest way to avoid those Pyrrhic victories which come even to the officers of large corporations who certainly know conditions in their own industries is to check fundamentals and technical factors against each other. If the news is good and market action bad, or vice versa, retain a little skepticism until the two come into some agreement. There will be plenty of opportunities when one confirms the other to make up for the few missed.

This prescription like any other for your financial health is more easily written than read. We have arranged, however, to devote the "Trader" articles in the Dividend Forecast issues to the subject of technical action of the groups being covered. Mr. Dodge has been forbidden on pain of forfeiting his prescription pad to use highly technical terms, Latin, or hieroglyphics of any sort. Better to miss some of the finer points than to fog the whole subject. He complains that each group would take a complete article if all the technical angles were to be explored but that is obviously impossible and would help very few. We think the usefulness of the Dividend Forecast has been very materially enhanced by the charts and discussion you will find just ahead of it in this issue and the next. The "bloodless verdict" of the market often disputes one's preconceived opinion.

***** IN THE NEXT ISSUE *****

Appraisal and Special Dividend Forecast

Part III—Metals, Oils, Building Materials, Chain and Department Stores, Mail Order Companies, Miscellaneous Issues

Part II in This Issue.

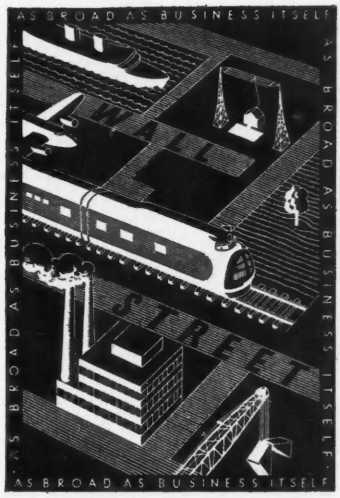
Part I in the Issue of July 29—Aviation, Public Utilities, Machinery, Railroads and Rail Equipment, Farm, Business and Electrical Equipment.

Charles Phelps Cushing Photo

Natural beauty is fine, in its place, but scenes of economic activity can also be beautiful, as this one shows. In more ways than one smoking industrial chimneys are beautiful to the eyes of business men and investors. As measured by our seasonally adjusted index of per capita business activity, we are now approximately back to the highest level of last year. But will the upward trend endure? Is it rally or recovery? **See page 430.**

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



Questions of the Day

When the Administration veers away from its pet reciprocal trade policy and goes in for subsidized cotton exports and barter, maybe there's hope for a turn-around on the Labor Act and taxes. Has it ever yet been consistent on anything except inconsistency?

Whatever the New Deal's mistakes, its effort to lower world trade barriers was a gallant struggle for a worthy principle against what ultimately turned out to be hopeless odds. Mr. Roosevelt is not responsible for Nazi Germany and the nationalistic trade warfare raging over the world. At times it is only sensible to fight fire with fire. Perhaps this losing game will in time force a return to sanity in world trade. Meanwhile we can play it as well as any and stand the damage far better than most.

Why was the sentiment and the public utterances of business men so gloomy just a short while ago? Conditions have been pretty good, judging by the majority of earnings reports for the first half of the year.

Appraised by depression standards, the level of business was relatively good at all times in the first half of the year, but the trend was down from December to late April and the stock market broke rather violently in January and again in March-April. Business sentiment is affected by declining orders before reaction shows up in the production index and also by stock market action which usually precedes visible economic change. Present improved sentiment reflects recent weeks of rising orders and a better stock market. Business men are merely human, reacting to hope or doubt or fear. They are not engaged in sinister plot or intrigue, whatever their political opinions. No business man ever refuses an order that he can profitably handle.

Has there been enough real change in the Administration's public utility policy to justify the speculative demand recently shown for utility issues?

The big change is not in the Administration's utility policy, but in the utility policy of Congress. In recent months Congress has been increasingly independent of the Administration in legislation and appropriations governing Federal competition with private power companies. In the year from August 1, 1938, to August 1, 1939, utility stocks advanced an average of 27.2 per cent, rails 3.3 per cent and industrials 1 per cent. So pronounced a change in market status cannot be called speculative. Numerous investors quite evidently have acted on the belief that the New Deal is headed either for reconstruction along more conservative lines or destruction. Utility stocks have naturally been the first beneficiaries since the political factor here overshadowed a generally favorable economic status.

Are we not cutting off our nose to spite our face when we abrogate our trade treaty with Japan and get ready to embargo exports to that country? Since we sell Japan about twice as much as we buy from her, we'll be the loser.

Although Japan buys far more from us than we buy from her, any stoppage of this trade would make no more than an imperceptible dent in our huge economy, but would be a severe blow to the Japanese economy because it is much smaller than ours and far more dependent on foreign trade. If Great Britain and the United States, by far the largest consuming markets in the world, should both terminate Japanese trade relations it is difficult to see how Japan could avoid economic collapse. Conceivably the Japanese may see the light and change their attitude. In any event, the American people have no taste for selling Japan supplies which aid her in carrying on the most ruthlessly brutal war of conquest in modern times.

The Trend of Events

FLEXIBILITY WITH A VENGEANCE . . . Objectors to "price rigidity" in such industries as steel must be highly gratified over the course of events this year and last. Several waves of weakness have made the headlines and underneath the periodic wars has been an undercurrent that assured large purchasers they need not hurry to cover requirements at standard prices. Many customers have been able to hold off orders until price-cutting began and then buy far enough ahead so that they need not re-enter the market until prices once more cracked. Naturally the steel companies are damaged by this situation. One can assume that this means nothing to the planners who have clamored for flexible prices, but there is one question they must surely be asking themselves: Who is helped?

The distinction is important between long term reductions—passing along the benefits of more efficient production—and price-cutting that eliminates fair profit margins. Makers of chemicals and tires, producers of alloying metals and gasoline, and dozens of other industries have shown that downward price trends for their products are not unhealthy. But when one industry is penalized by chaos in prices, even if profit margins of its customers are thereby enlarged, it is difficult to see in what way the national welfare is improved. The political monopoly hunters have been very quiet about the steel industry during the past year. Now that we have much increased "flexibility" in steel prices is the Government entirely happy about it? Do the steel labor unions appreciate the change?

CHEERS FOR THE HATCH LAW . . . In signing the Hatch bill President Roosevelt expressed his complete approval of the measure's objectives. This makes it very nearly unanimous. It matters not that among both advocates and opponents of this law a great many were more interested in strategic political considerations than in clean government. For once the maneuverings of politicians have worked out to the public good.

The ability of any Administration, present or future, to dictate its own continuity of power has certainly been lessened, now that it will no longer be possible to pack either Democratic or Republican nominating conventions with Federal job-holders. Not again will the country be nauseated by the stench of politics in relief, notorious in the campaigns of several Congressional candidates last year. Whether Mr. Roosevelt has lessened his chance of a third nomination—assuming he wishes it—is problematical. It is certain, however, that a veto of the Hatch bill would have done his political fortunes irreparable harm by providing his 1940 opposition with devastatingly effective ammunition.

In longer perspective, the Hatch law may very well stand out as a major landmark in American political history. An even more important political monument, looming up for probable erection early next year, is the Logan-Walter bill. This bill seeks to establish definite and uniform rules of procedure and conduct for all the Federal administrative and quasi-judicial agencies. It would regulate the bureaucrats to insure a square deal for those regulated by them. It would return us to a government of law, circumscribe the government of men who in recent years have presumed to put themselves above both Congress and the Courts. Business men will breathe easier when regulatory laws mean exactly what they say and not what administrative bureaucrats think they ought to mean. The high-handed career of the Labor Board has done more than anything else to clinch the case for the Logan-Walter bill.

PUMP PRIMING ENDED? . . . The real significance of the action by which the House of Representatives turned thumbs down on both the Administration's lend-spend bill and its proposed $800,000,000 increase in the slump clearance program is very difficult to appraise. Belated recognition of growing public distaste for Federal profligacy undoubtedly had something to do with it. Yet it is pertinent to note that the House swung the economy axe on the type of spending favored by the Administration and not on the type of spending favored by Congress. The total appropriations made by this Congress set a peace time record and in many instances exceeded Administration requests, notably in the case of farm benefits.

It must therefore be concluded that this is rather more a struggle for power—power to control the Federal purse strings—between the President and the House than a fight on principles of economy. By provision of the Constitution, appropriations must initiate in the House. Since 1933 observance of this provision has been largely technical, with the House in the main putting its rubber stamp on money bills initiated by the Administration. The now dead "Works Financing Bill" was written by the White House inner circle, without even advance consultation with Congressional leaders. Moreover, New Deal bureaucrats have increasingly fallen into the habit of spending beyond authorizations and handing Congress deficiency appropriation bills to make up the difference. An irritated House, mindful that the President's "mandate" is no longer what it used to be, has asserted its Constitutional power in no uncertain fashion.

In short, it appears that if there is to be any new pump priming in 1940 it will be Congressional pump priming and not Administration pump priming. Even if the President's proposed measure had been adopted, however, the amount of lending-spending scheduled to be concentrated in 1940 would not have been a major source of business stimulation. Meanwhile, for some time to come, Federal lending for housing and deficit spending for armaments, farm benefits, relief and what not will put a good many billions of dollars in circulation.

THE FARMER'S POSITION . . . The Department of Agriculture estimates that farmers' cash income from marketings in the first half amounted to $2,967,000,000 or about 4 per cent below last year's corresponding figure. In contrast is the estimate that total national income for 1939 will approximate $66,000,000,000 as against the $64,000,000,000 in 1938. When Government payments are added to regular income, however, farm receipts in the first half are raised to 1 per cent above a year ago. The appropriation for the Department of Agriculture in the current fiscal year, moreover, carries the record total of $1,195,000,000 which is $237,000,000 more than last year's and $350,000,000 more than the amount recommended by the President in his budget message. Despite far lower prices for agricultural products the farmer gathered in 8.5 per cent of the 1938 national income as compared with his share of 8.8 per cent of the 1929 figure. He has reduced his costs through mechanization and refinanced his mortgages at lower interest rates. His lot is far from completely happy but along with the rest of the nation he is making a good struggle of it.

Hardly an industry in the country can afford to ignore farm purchasing power, from the direct suppliers of equipment and clothes and automobiles to the farthest removed along the line of buying generated with agricultural money. During the recent slump the stabilizing influence of farm buying was most important in holding the decline within bounds and it promises to continue its assistance in the same moderate fashion on the recovery. Over the long run there is just as much cause to hope for an end of farm deficits and federal subsidies at the expense of taxpayers as there is to hope for a balanced national budget. Prospects for both seem to be looking up just a bit.

STRANGELY QUIET . . . Every nation in Europe is straining its utmost energies to be "prepared" for any "contingency" of the next few weeks. According to the Nazis, Germany will not again be "caught napping," as presumably she was when she invaded Belgium in 1914! To defend herself against Poland, she will have 2,500,000 soldiers in the field by August 15. The Germans say these are "training manoeuvers," but nobody is fooled. They constitute another offensive in Hitler's white war of threat, extortion and bloodless conquest. This game has been played to the limit—if the British and French mean what they say. But there are lingering doubts in many minds that Chamberlain means what he says. So the fate of Europe hangs in the balance while a psychopath broods on his mountain top at Berchtesgaden, vacillating between doubt and conviction, debating his chances of carrying off one more successful bluff.

Meanwhile most high Nazi chieftains are far from Berlin on vacation; Chamberlain and his fellow Cabinet members are taking an extended holiday; no news comes out of Russia; Franco is busy with his internal problems; Mussolini has been strangely quiet for many weeks and even the strident voice of his chief propagandist—Gayda—is temporarily muted.

The Italian silence is especially impressive. What is Mussolini thinking about? We believe we know. He is probably thinking that Italy has nothing to gain from a German subjugation of Poland; that if Hitler precipitates a general war Italy will be the first target of British-French attack; that even if the German-Italian combination were victorious in a general war, the winner would be Germany and Italy would forever after be the tail on the Nazi dog; and, finally, that in reality there is greater conflict between Italian territorial ambitions and German territorial claims than between Italy and the British-French alliance.

Mussolini undoubtedly is a very worried man right now. Such influence as he has with Hitler will be exerted strongly against war over Poland. If such influence is not enough, it is not impossible that the Italians will either change sides at the last moment or at least attempt to remain neutral. They have sold out to the highest bidder before.

Decisive Market Phase Ahead

On domestic politico-economic factors we lean to the hopeful side, but the market is likely to remain in a cautious mood and a trading range as we approach the widely heralded European crisis season.

BY A. T. MILLER

As these observations are written the market has spent exactly three full weeks getting nowhere. Since the sharp advance on Monday, July 17, our daily average of 40 representative industrials has backed and filled within a range of 3.86 points on the basis of closing prices.

In this period five separate efforts to plough through resistance around the 108 level—equivalent to 145, Dow-Jones—have failed. On last Friday's brisk reaction, the Dow-Jones industrial average held slightly above previous low for the three-week trading range, made on July 20, both as to lowest prices and closing prices. Reflecting slightly greater influence of several draggy groups, our 40 index on the same downturn went under its previous trading range low by approximately a full point.

Volume indications remain moderately favorable in that all recent periods of decline have petered out without follow-through momentum. The start of the present week finds the three-week trading range apparently intact, with average prices above the lows made on the dip of approximately 2.50 points in industrials on Friday, August 4. The one certainty about this stalemate is that it will not last much longer. Again the market is working itself into a technical corner out of which, in all probability, it will emerge rather soon—either in decisive advance through recent resistance levels or a reaction which will cast grave doubt on the significance of the entire recovery phase since the end of June. At last week's lowest close of our 40 industrials index, approximately 30 per cent of the maximum rise since June 30 had been cancelled. There is no technical justification for significant extension of reaction at the present time, nor can we see justification for a bearish point of view in our domestic business and political trends.

In what we believe to be a fundamentally bullish setting, we propose to give the benefit of every doubt to the market. Only bad news from Europe can precipitate another nose-die in equity values as far ahead as we can now see, and we have no hesitation in stating that this possibility is beyond our ability to forecast in either timing or impact. Meanwhile there is both strong precedent and sound logic to support the view that the balance of probability, on domestic factors, favors an upward break out of the recent technical impasse. In bull cycles we can find no instance in which a narrow trading range lasted as long as three weeks without being followed by advance. The logic of it is that the market could not hold up for three weeks if it were under significant liquidating pressure in reflection of anticipated change for the worse in the trend of business and general corporate earning power.

On the other hand, we can not argue with anyone who prefers to view the outlook over the remaining months of this year with conservative reservations, nor do we feel entirely confident that an advance offering outstanding opportunity for broad appreciation is in the offing. The evil war-crisis potentialities, dramatized for months in the press and over the radio, are still lurking in the background. However gratifying the improvement in business, it is open at least to some reasoned doubt whether the upward trend will be maintained much, if any, beyond the late autumn season. The resistance recently encountered by the market may well be taken as a sample of probable even more formidable resistance around the 150-153 level, Dow-Jones. The prevailing level—approximately 142 as this is written—is more than 92 per cent of the 153 figure. On the other hand, while only a 10 per cent advance would be required to put the Dow-Jones industrial average virtually back to the last bull market high, our weekly index of 316 issues is more indicative of the general market position and advance of more than 25 per cent would be required to lift this to the last major high.

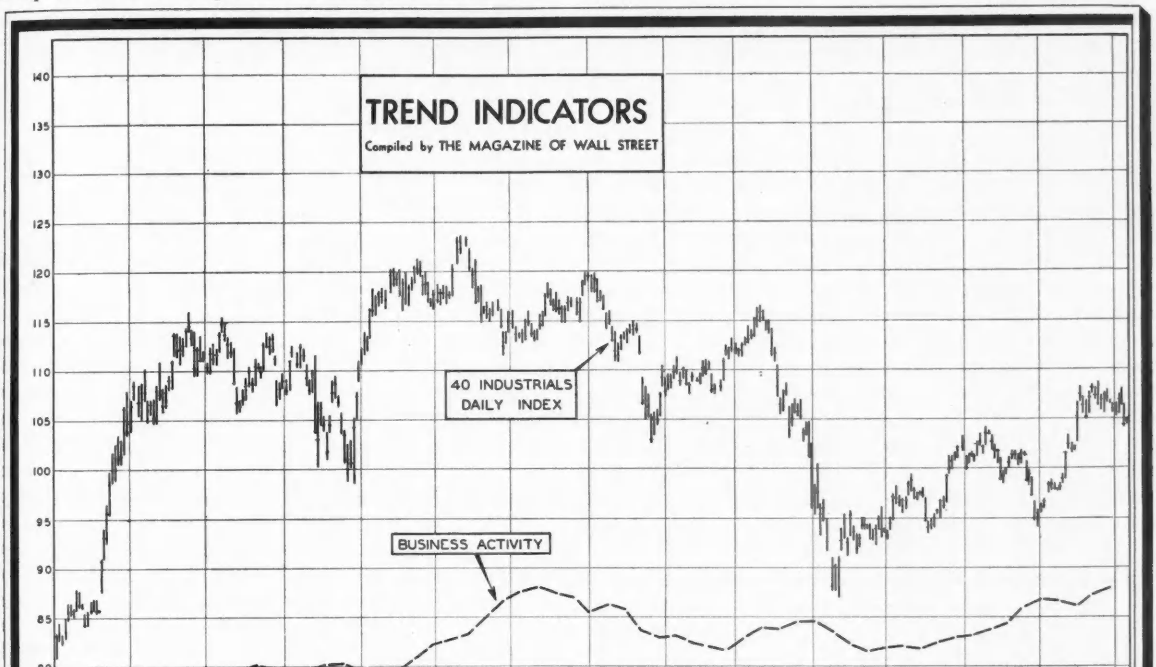
With the general public skeptical and the professional element operating largely on a cautious hit-and-run basis, the technical health of the market is being preserved. It is still possible, if not probable, that some time before the end of the year a scramble for stocks can develop—all the more sensational because of the long period of psychological repression exerted by the European threat.

Yet it is more than a bit difficult to conceive of such a development in the immediate setting. We are nearing

the very period of the year on which most European conjectures have been focused. The German army, according to current press reports, is pointing toward maximum mobilization of 2,500,000 soldiers, scheduled to be attained around the third week of August. If there is going to be another crisis, centering on Danzig, it would seem logical to reason that it probably will be precipitated within the next month or six weeks.

Possibly this is too logical, too much according to the preconceived schedule set up in the minds of a vast majority of investors and traders. Certainly a negotiated settlement of the Polish issue and the failure of any crisis to develop would be the year's biggest surprise—but, while such surprise is possible, we doubt that potential European crisis will be put out of mind until we are safely into the autumn. Meanwhile any near advance would be likely merely to broaden a trading range pattern by 5 to 10 points in the industrial average.

Relative to business activity and earning power, stock prices—with some notable exceptions—are low. Our weekly business index is virtually back to the high of last year, with our weekly 316 stock index nearly 17 points under the 1938 high. New orders and credit factors point to probable further business rise this autumn. More hopeful domestic political development have not been discounted. Regardless of doubts that we are seeing a long-sustained recovery spiral, such as that of 1935-1937, any peaceful clarification of near term European uncertainties would entitle the market to a bullish celebration. —Monday, August 7.



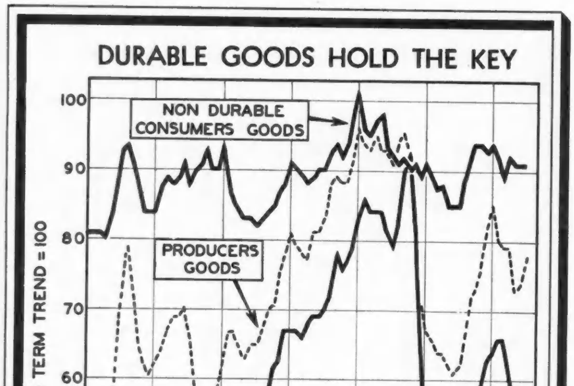
The trend has been pointing up for three months and economic activity, allowing for seasonal adjustment, is now back to approximately the high of last December.

Business Rally or Basic Recovery?

BY JOHN D. C. WELDON

STOCK market rise has dramatized the economic improvement under way in recent weeks and raised hopes for further progress in the months ahead. If war fears do not again unsettle the nerves of investors and speculators, it is conceivable that the market could work up a rather dynamic enthusiasm over prospect of even moderate business advance between now and the end of the year—in which case a further stimulant would be given, for whereas the market anticipates the business trend it also *affects* the business trend.

So far as strictly economic factors are concerned, the basis for the current improvement is not in the least mysterious. To understand it, a brief backward look is necessary. The last major recovery cycle carried durable goods activity to a relatively high level, resulted in a considerable expansion of productive capacities, greatly inflated operating costs in industry and culminated in the rare phenomenon of a sellers' market with inventories at swollen levels.



Ever since the business and market collapse late in 1937, economic factors have been working persistently toward balance. Business buying of goods and supplies, as well as investment in facilities, fell to an extremely low level in the first half of 1938, as did consumer demand for durable goods. Business emphasis was focused on reduction of inventories and adjustment of operating costs. The temporary revival in the second half of last year, aided in major degree by renewed Government pump priming and a sharp stock market advance, developed before economic balance had really been restored and before operating cost adjustments had been completed. It did, however, permit a further reduction of inventories and its failure to reach a higher level than the December peak was no doubt partly due to the fact that the increased demand in many lines was met in considerable measure out of inventories rather than new production.

After December there came another period of contraction in production, lasting about five months, as measured by the Reserve Board production index. During this period consumer demand, importantly supported by Federal spending, was maintained at a relatively satisfactory level, with consequent further reduction in total inventory of consumer goods. Corrective adjustment, working toward economic balance, made much greater progress in these five months than in the first half of 1938, for demand was so low in the latter period that inventory reduction made scant progress.

Relative to the present level and favorable trend of consumer demand, inventories are generally low. Reflecting this supply-demand situation, new orders flowing to manufacturers of consumer goods are rising persistently, having turned up in mid-May. New orders for capital goods, began to rise sharply in June, reflecting combined effects of activity in consumer goods, more hopeful business psychology, favorable level of public building and private residential building, and the stimulus flowing from domestic and foreign armament programs.

Although the advance in the production index is likely to flatten out over the immediate future, largely due to the lull in motor production which may be a bit longer than had been expected because of the strike now delaying General Motors' new model production plans, it appears virtually assured that September and October will see a substantial business rise—with a better than even chance of topping the recovery high of last December by at least a moderate degree some time before the end of the fourth quarter if not sooner.

Courtesy Republic Steel Corp.

Steel operations point up.

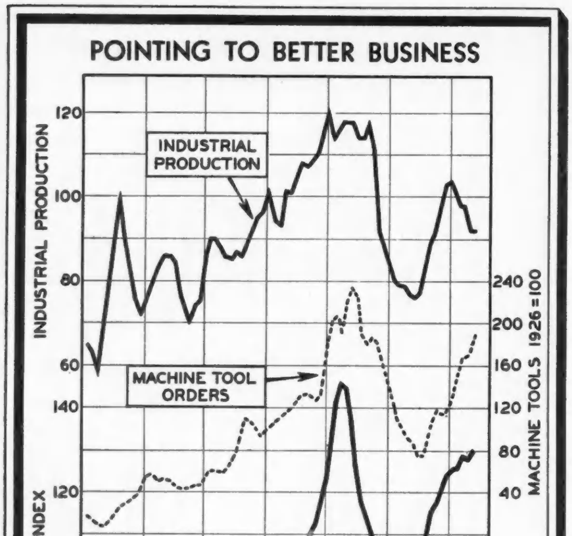
This estimate takes into account rising optimism, Washington developments generally pleasing to conservative opinion, a considerable lessening of war fears, favorable monetary factors, the probable rate of Federal deficit spending over the months just ahead, the moderately favorable near term outlook for residential building, the probability of greater than seasonal rise in motor production during late summer and autumn—and, most convincing of all evidence, the present favorable trend of new orders, for new orders, unless cancelled, are an accurate barometer of future production. As the writer sees it, the only contingency which could upset the apple cart would be European war —reacting on business psychology via the initial shock to the security markets. Whether such a disaster is more than a remote possibility is so highly conjectural as to be futile for discussion here.

Limitations in the Picture

Quite aside from Europe, however, we must face the fact that there are some limitations in the domestic economic picture as it shapes up from the present perspective. Replenishment of inventories and adjustment of production to consumer demand could be accomplished in relatively few months time, giving way to renewed reaction in production—especially if meanwhile business forward buying assumes even slightly speculative characteristics. The Federal public works program launched in 1938 is now at approximately its peak and will taper off rapidly. W. P. A. relief spending is being pulled down to make an average reduction of about 30 per cent in the present fiscal year. Residential building is high only when compared with depression standards, is low when compared with the 1923-1929 average, and further gains in sight appear moderate. Industrial and commercial construction remains thus far deep in a depression range. There is no apparent need for a major expansion in producers' durable goods activity any time soon, since considerable slack must be taken up before the added industrial capacity installed in the 1935-1937 period is anywhere near fully employed. Finally, while our own armament program—especially the naval and merchant marine building—will provide important outlets for some types of durable goods for a long time to come, foreign demand for goods incident to the armaments race is probable at or close to its peak, assuming no war.

Weighing all the pros and cons, we are inclined to disagree most emphatically with President Roosevelt's recent observation that the action of Congress on the neutrality bill killed a nice little business boom and deferred hopes of recovery until January, when Congress will again be in session and action on neutrality possibly can be reconsidered. On the contrary, unless war changes the picture, we believe the greater part of the current recovery cycle will have been seen *before* January and that, unless further change in the domestic political scene produces a dynamic revival in productive, private long term investment during the next few months, the business outlook around the end of this year will be highly dubious. It is theoretically possible that the movement now under way may spiral into a long sustained recovery, such as that which endured from October, 1934, to late August, 1937, but we are trying to deal here with probabilities, rather than possibilities; and we think is probable that at best at least one more period of trouble will intervene, during part of 1940, before the producer goods sector of our economy can function as actively as it did in 1936-1937.

There is slight reason to fear that the scheduled reduction in W. P. A. spending in the fiscal year begun July 1 will be an important depressant of business activity. The word "scheduled" is used advisably. Every initial W. P. A. program in recent years has been subsequently increased by additional appropriations. Next year is election year. Early in the 1940 session of Congress there will be great pressure in behalf of W. P. A.



Even if there is a 30 per cent reduction in the total, however, men let out will not starve or go without clothing and shelter. The great majority would simply be transferred from Federal to local relief—and under pressure of compulsion an important minority no doubt can find private work.

An idea of the relatively slight importance of W. P. A. wages in our economy can be had from estimates applicable to New York City. During the past twelve months total expenditures of W. P. A. workers in this city were estimated at approximately $153,000,000—with such expenditures divided, roughly, as follows: food, 33 per cent; clothing, 15 per cent; rent, 20 per cent; fuel and light, 5 per cent; housefurnishings, 3 per cent; miscellaneous, including amusements and upkeep of automobiles, 24 per cent.

Therefore, a reduction of 30 per cent in this spending would amount to $46,000,000—a drop in the bucket in a city in which consumer spending amounts to well over $2,000,000,000 a year. These proportions are fairly typical for the country or certainly representative enough to demolish the New Deal theory that W. P. A. relief spending has been a major business prop.

On the other hand, it can not be denied that the Federal public works program has been a much more important business factor, since P. W. A. spending involves large purchases of materials; this spending is now tapering off and, unless Congress increases public works authorizations rather early in 1940, it is certain that this stimulant over the next twelve months will be substantially less potent than during the twelve months ended June 30.

Total construction—public and private—is a vitally important factor in appraising the recovery outlook. This activity, accepting data of the National Bureau of Economic Research based on consumption of building materials, amounted to $16,207,000,000 in 1929 and to less than half that much in 1938 even when calculated in terms of 1929 prices. This estimate covers both new construction and renovation.

Building Revival Essential

Monthly new public building awards over the next year will be substantially under the high of approximately $310,000,000 reached in the month of December, 1938. Residential building, with allowance for seasonal adjustment, has been running moderately under the recovery peak attained toward the close of last year, but has shown a modest upward tendency in recent weeks, suggesting that preceding recession may have been temporary. The recent reduction in F. H. A. mortgage interest rates from 5 per cent to 4½ per cent should have definite stimulating effects both on single-unit residential building and larger scale rental projects. A cut of 10 per cent in the total of a home buyer's annual interest charge is a more positive and effective contribution to recovery in building than any feasible reduction in costs of materials or labor. The Department of Justice investigation of alleged monopolistic practices in the industry, however, should tend at least to prevent any early rise in building costs and thus may be negatively helpful, for an excessive rise in costs did much to bring about the reaction in private residential awards in 1937.

With the usual rather long lag after a change for the better in the general economic cycle, industrial building awards are beginning to show some slight improvement—but until there is a major revival of investment confidence in our longer term politico-economic outlook construction of this type will not remotely approach the levels we formerly regarded as normal. On the whole, from the present perspective, we will be lucky if total new building contracts of all types in the next twelve months exceed 75 or 80 per cent of the figure of the past twelve months.

It is quite true that a major proportion of this country's aggregate economic activity at all times consists of what may be roughly termed "necessitous business." We go on eating food, buying essential clothing, paying the rent, meeting our insurance premiums, paying the telephone and electric light bills, going to the movies, buying gasoline, having our cars repaired, etc. It is probably safe to say that in a year like 1938 "necessitous" economic activity—not counting Government pump priming—accounted for at least three-fourths of all economic activity.

We can subsist, with Government help out of borrowed money, on a "necessity" basis well above the depression lows of 1932-1933—but if we are ever again to achieve a satisfactory level of prosperity and come anywhere near solving the unemployment problem we must close the economic gap represented by deficiency in what can be broadly termed "marginal spending" or "confidence spending." It is right here that we come to the very core of the depression problem (*Please turn to page* 476)

Great Britain Muddles Through

War or Not, There Are Dangerous Days Ahead for John Bull, Involving Economic Repercussions Likely to Reach Across the Sea to Us.

BY DR. MAX WINKLER

ANDRE SIEGFRIED, prominent French writer on economic subjects, in a book "Angleterre d'Aujurd'hui" (England of Today) published more than a decade and a half ago, painted a rather dismal picture of the future of the British Empire. "If the rest of the world," said M. Siegfried, "refuses to go on doing what it has done throughout a century, supplying raw materials to England and buying manufactured goods from it, then it is no longer a question of a temporary crisis, but the beginning of an economic decadence—a decadence that will be terrible. . . . The threat is tragic, for if realized, this great nation must sink to a fifth-rate power."

Since the rest of the world is not in a position to do what is apparently the pre-requisite to a prosperous England, conditions in that country have assumed a somewhat disheartening aspect. Moreover, the situation has become aggravated by the intensely nationalistic policies pursued by the nations of the world in their struggle for economic autarchy, to achieve which, rigidly protective tariffs, import quotas, clearing and barter agreements and exchange restrictions have been put into effect.

In the last pre-war year, British exports and re-exports aggregated £634,821,000 and imports £768,735,000, leaving a so-called unfavorable trade balance of £133,914,000 which was more than made up by the country's invisible income, estimated for 1913 at £339,000,000. Last year, total exports, including re-exports, amounted to £561,800,000, and imports to £938,500,000, or an excess of imports of £367,700,000. However, last year's invisible income was insufficient to cover the visible trade deficit, the country's balance of international payments resulting in a net debit of £55,000,000. Examination of Great Britain's foreign trade statistics reveals that the country is not absorbing a larger share of the world's total exports—a fact which, along with the lower level of prices both of the things Britain buys and the things she sells has, according to the Midland Bank, "resulted in the maintenance of a more or less steady excess of imports, in terms of sterling," adding that "having regard to the much smaller amounts the world is now paying to Great Britain for interest and dividends on her investments abroad and for services rendered by her shipping . . . she is importing more or less up to the limits of her income, and has little or nothing left for new investments abroad."

The significant part which overseas trade plays in the economic structure of the country was responsible for the introduction in parliament on July 6, of the Overseas Trade Guarantee Bill, which proposes to increase to £60,000,000 the aggregate liability which the Board of Trade is permitted to incur in guaranteeing export transactions that are considered to be "expedient in the national interest." It is unofficially estimated that the total amount involved will be brought up to £100,000,000, a figure which curiously enough agrees with the amount

Wide World Photo

A bomb-proof shelter in his garden is now as important to an Englishman as a good roof on his house.

Salient British and U. S. Indexes

Year	Average Cable Rate For £ in N. Y. (in cents)	Wholesale Price Index U. S.	Wholesale Price Index Gt. Britain	Index of Industrial Production U. S.	Index of Industrial Production Gt. Britain	Industrial Share Index U. S.	Industrial Share Index Gt. Britain
1929	485.69	100.0	100.0	100.0	100.0	100.0	100.0
1930	486.21	90.7	87.5	80.7	92.3	74.2	80.6
1931	453.50	76.6	76.8	68.1	83.8	45.9	62.6
1932	350.61	68.0	74.9	53.8	83.5	24.4	60.4
1933	423.68	69.3	75.0	63.9	88.2	35.0	74.1
1934	503.93	78.7	77.1	66.4	98.8	42.9	89.9
1935	490.18	83.9	77.9	75.6	105.6	48.0	100.7
1936	497.09	84.8	82.7	88.1	115.8	67.3	115.7
1937	494.40	90.6	95.2	92.2	123.6	69.0	108.3
1938	488.94	82.5	88.8	72.3	115.5	52.6	88.4
1939, Jan.	466.94	80.7	85.1	84.9		57.7	82.7
" Feb.	468.57	80.7	84.8	82.4		56.1	84.9
" March	468.54	80.5	84.6	82.4	122.2	56.4	90.6
" April	468.05	80.0	85.1	77.3		49.7	82.7
" May	468.13	80.0	85.6	77.3		51.6	85.6
" June	468.30	.....	.....	.....		52.6	84.9

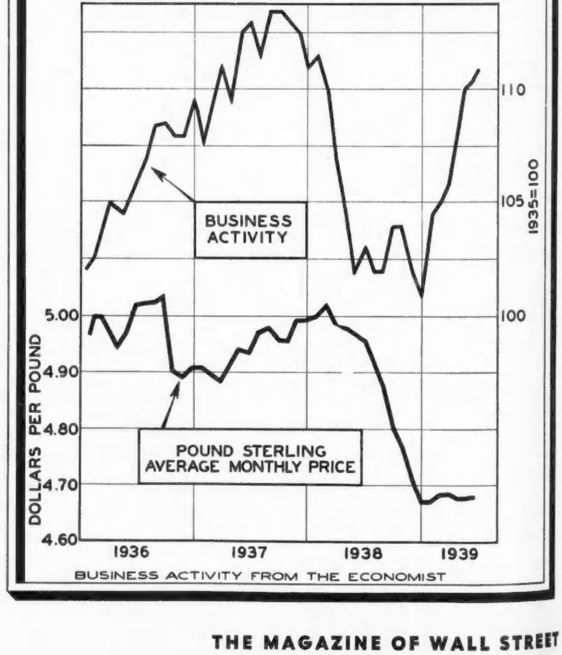
Statistics in the above table were taken from the Federal Reserve Bulletin and the League of Nations Monthly Bulletin of Statistics.

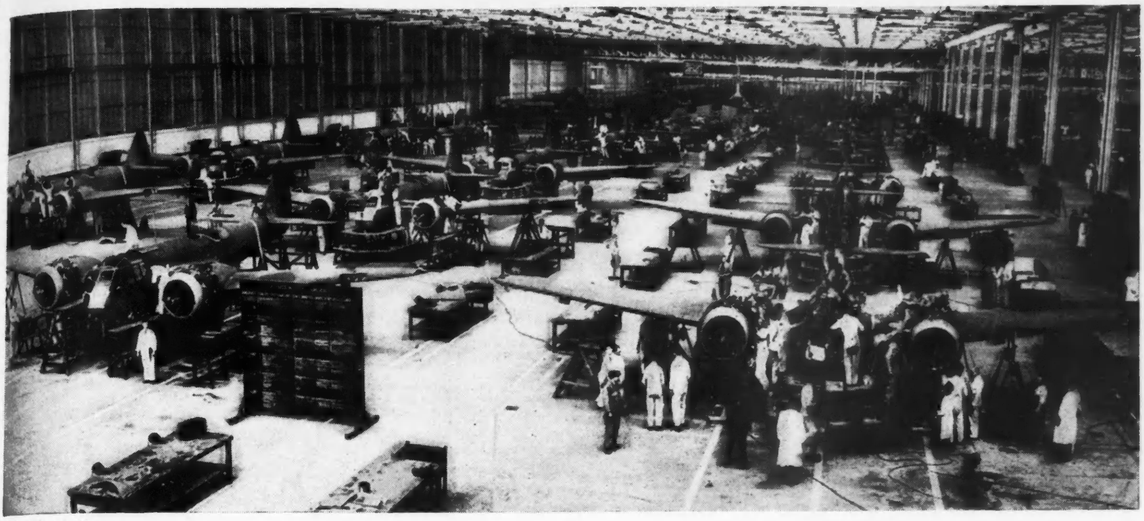
which Washington was anxious to have Congress appropriate to aid America's neighbors who may wish financial accommodations for allegedly constructive and revenue-producing programs. The purpose of the British bill is to facilitate the purchase of armament and defense supplies in the United Kingdom by states to which pledges of assistance against aggression have been given and by other friendly states. Although no particular country has been specified, Poland, Turkey, Rumania and Greece are expected to be the principal beneficiaries. The interest rate will vary according to the terms of the guarantees and the credits may be extended for a maximum period of fifteen years. Guarantees may be given only for the benefit of individuals or concerns carrying on business in Britain, with the exception that within a limit of £60,000,000 guarantees may be given otherwise than in connection with the exportation of domestic goods. Advances are also permitted to cover the total cost of factories to be erected abroad provided that purchase of British domestic goods, such as machinery for the plants involved, amounts to two-thirds of the total cost of the factories. The Board of Trade is given complete discretionary powers with regard to application of the provisions of the Bill, subject to the consent of the Treasury. Funds required to carry out the objectives of the measure will be obtained through the issuance of Treasury bills rather than through recourse to the money market on the borrowers' promissory notes guaranteed by the Board of Trade.

Although the Trade Bill is confidently expected to result in an expansion of Britain's overseas trade aside from the political advantages which should accrue to the nations, it will at the same time increase the country's indebtedness and add to an already heavy burden.

Great Britain's national debt, exclusive of the obligations of local authorities and other public bodies, aggregates substantially more than eight billion pounds. About one-quarter of one billion is set aside in the 1939-1940 budget to meet the charges incident on the country's commitment, or well over 26 per cent of the total ordinary expenditure of £942,444,000. Another quarter of a billion is allocated for defense services which do not, however, include expenditure from issues under the Defense Loans Act, estimated for the current fiscal year at £382,500,000, bringing total defense expenditure for 1939-1940 up to £655,500,000, or five times the amount spent in 1935-36 and more than half as much again as was spent in the last fiscal year. Although these figures are gigantic, it is difficult to criticize Great Britain's defense policy, except perhaps on the ground that had the nation seen its way clear to build up its defense resources earlier, the so-called aggressor nations would have been much less bold and bellicose. Great Britain, and its Prime Minister Chamberlain in particular, may at last have learned that through force of persuasion he will make little or no progress with the totalitarian governments, and that it is only persuasion by force which almost invariably impress the dictators.

It is apparent that the nation's defense program will influence profoundly Great Britain's industrial organization. Construction and building trades are expected to be the chief beneficiaries, with aircraft and motors, shipbuilding and armaments, also some branches of the steel trade, specialized engineering and certain sections of the textile trades, deriving marked benefits. While a good deal of the expenditures obviously will be for non-productive purposes, the nation's business activity will receive a considerable incentive from the program. In other words, a temporary boom or a situation somewhat resembling boom conditions may be created.





Wide World Photo

Mass production of Blenheim bombers in a government factory in Liverpool.

The question which is, however, of paramount import is this: What will be the consequences of Britain's defense program? Will they, through the creation of new employment, appear beneficial in the short run, but prove harmful when the spending will come to an end? Will they produce an expansion in specialized industrial capacity and equipment for which only a temporary demand exists, without undue inflation of wages and prices of materials, lessening the danger of a sharp setback in industrial activity when the period of intense amassing of armaments has passed? While it is difficult to answer these questions with precision, it is hoped and expected that the harmonious co-operation of the government, industry and labor which has always been in evidence in days of stress will not be wanting at this juncture, when the nation is confronted with a crisis perhaps more serious than the one a quarter of a century ago.

The effects of the defense program upon labor are already beginning to be felt: On July 10, the number of British unemployed declined to 1,256,424, the lowest figure since October, 1929, and comparing with 1,773,116 a year ago.

Commenting on the possible repercussions on industry of Britain's defense program, the Westminster Bank stresses "the predominant necessity to get the job done," adding that "this task may involve finely-articulated planning, not only of defense orders, but also of commercial work," and expressing the hope "that there is no reason why the Government's program should not be completed rapidly and smoothly, and without such expansion of certain branches of industry as would bring a real danger of a relapse into severe economic depression when the period of special effort was passed."

Competent students of international economics and finance are agreed that the relatively satisfactory position which Britain's foreign commerce occupies today, in the face of disturbed conditions, political, economic and financial, which have prevailed, and continue to prevail in many parts of the world, and in the face of intensified competition encountered in foreign markets, is attributable to a large extent to the monetary policy adapted by the Government and the resultant change in the relation between sterling and other national currencies.

The success of the national defense program, as well as maintenance and further expansion in overseas trade, are to a certain extent contingent upon the continuance of monetary stability. For the past seven months the rate on New York has been distinctly firm, the pound averaging somewhat more than $4.68. The large exodus of foreign short-term funds from London, which occurred at the time of the Munich crisis and which reached its climax after the so-called Munich Agreement in the early days of October of last year, may be assumed to have come to an end. The gold holdings of the Exchange Equalization Account, amounting to about $560 million, appear adequate to resist any ordinary pressure which may develop against the pound. Only a fresh international crisis may change the picture very radically. It is difficult to state with definiteness whether such a crisis is imminent. The number of danger spots is very great indeed: The German-Polish controversy resulting from the German demand for the return of Danzig to the Reich and for the construction of an autonomous highway through the so-called Polish Corridor; the hesitancy on the part of Russia to enter into an alliance with Great Britain and France; the constant movement of German and Italian troops into Africa; the Far Eastern imbroglio aggravated by the Denunciation of the Commercial Treaty of 1911 between the United States and Japan on the part of the former, and the likelihood that Great Britain may follow the example set by the United States; the enigmatic position of Franco in Spain; the forthcoming Partietag (Party Congress) of the National Socialist Party at Nuremberg—are factors which should be given serious consideration by those who wish to appraise intelligently economic developments because of the profound influence which they exert. However, Britain's growing strength, her decision to resist aggression and to render aid to those who are threatened by aggressors, the assurance of French co-operation, and the hope and expectation that in the event of a crisis, at least material aid from the United States would be forthcoming, suggest that the so-called totalitarian powers will think twice before provoking a fresh crisis.

Happening in Washington

Significance of Recent Pro-Business Legislation

BY E. K. T.

THE record of the session of Congress just ended makes good reading for business men who have been watching for a change in the color of news coming out of Washington. Actions of the Senate and House, and their failure to act in significant instances, indisputably show a trend away from brain-trust theories of economics and toward a sympathetic appreciation of the actual functioning of business. The Federal government as a whole still has some distance to travel in this direction, but there is no mistaking that the direction has turned.

Several measures of tangible aid to business were put through, but more important in the long run is the psychology of the present Congress—its rebellion against domination by the White House and the President's circle of non-elected advisors, its always critical and frequently hostile attitude toward recovery panaceas and new social experiments, its willingness to listen to business views, and its gradually stiffening resistance to further spending. True, much of the rebelliousness may be laid to adjournment fever, personal pique, and political maneuvering, but there is ample evidence that Congress is getting fed up with pump-priming, regulation, and planned uncertainty as to government actions affecting business.

Significantly, there is little support for the President's lament that a nice little business boom has been killed by the refusal of Congress to vote him millions to spend and discretion in regulating trade with warring nations. Congress is perfectly willing to take the responsibility for these actions which he laid at its door, feeling, and with reason, that it understands the temper and wishes of the public better than does the President. Congress has asserted its independence and its responsibility; Congress has said that the country no longer wants the strong New Deal medicine of reform, relief and recovery in the dosages it has been getting up to now; Congress has gone "yes—but." So, while this is not complete reaction, it should be of the greatest encouragement to a business community which for years has been wondering what the New Deal would think up to do to it next.

As for concrete business aids, there is the tax law, eliminating some of the worst business irritants and repudiating without apology the pet New Deal theories of wealth distribution, and coupled with this the voted study of all internal revenue laws with the announced purpose of eliminating deterrents to investment and recovery. There is the freezing of the social security tax rates, voted by both Houses but tangled with the unrelated old-age pension issue, placing social security on the "pay as we go" basis long urged by business. There are the restrictions placed on T V A, restraining its competition with private utilities. There is the relief appropriation with its limitation of competition and elimination of the prevailing wage which so frequently interfered with private employment. There is the restriction on funds and life of the T N E C which New Dealers had hoped would turn business inside out and upside down. There is the investigation of the N L R B which will show up the handicaps to business of the Board's one-sided application of the Wagner act. Then there is the Hatch bill with its prohibition against political pressure on and by federal office-holders.

Things left undone are just as important business-wise, as they show the resistance to unsettling new experiments. The spend-lend bill would have siphoned some money into some industries but its defeat is a step toward economy and away from state capitalism, from federal competition with private business and investment, and from artificial props under the national economy; and as significant as its defeat in the House are the amendments tacked on by the Senate prohibiting government competition with industry, forced labor contributions to political campaigns, and others which plainly indicate the popular demand for a curb on some of the practices of the past few years. Roosevelt's costly and revolutionary health bill, closely verging on socialized medicine, and which he hoped to make into an important campaign argument, never even got out of committee. Proposals for unsound government loans to small businesses got knocked down from all sides. Suggestions for new federal power projects were quietly squelched. The bill to double the program of the U. S. Housing Authority would have been defeated if taken

up in the House, and while still pending its chances next session are mighty slim. Liberalization of the wage-hour law got away from the administration, and if the session had lasted another week the House would have trimmed it tremendously and the Senate might have followed suit. The defeat of the administration in Congress the last few weeks of the session was an utter rout. Whatever this may mean politically, for business it means a return to representative government wherein the views of business men, even when in the minority, are given a respectful hearing, a swing away from social experimentation and toward more attention to realities and less blind worship of noble objectives.

The attitude of Congress is reflected in the activities of many (though not all) administrative agencies; they are pulling in their horns, acting less high-handedly, paying more attention to the business view. Harry Hopkins is feebly trying to make his department of some actual assistance to business. And it has been some time since President Roosevelt and his aides have broken out with a fierce tirade against business and people who haven't had to live on government handouts.

All in all, this session of Congress has done a lot for business.

CAPITAL BRIEFS

Special session of Congress in the fall was being talked as the old one died, to pick up where this one stopped, since all bills retain their status. Roosevelt will call one if war threatens or if he has cooked up some new recovery scheme which he thinks he can get through. He may anyway, on the theory that after a rest and a visit home Congress will be less rambunctious and he can salvage most of his program and make the spring session shorter and sweeter, though observers doubt it would work out that way.

Third term try by Roosevelt looks less probable after the drubbing his party gave him in Congress. Since the first few faithful started the procession there has been no great rush to the third term band-wagon. Plenty of sage politicians are trying to dissuade him. No one knows his view, but in recent weeks there has been a widespread swing of feeling from probably will to probably won't.

Hatch bill was put through mainly as a stop-Roosevelt move, since its most important immediate effect will be to prevent appointive Federal office-holders from dominating the 1940 Democratic convention and influencing the election. Lesser motive was resentment of Congress members against Washington's interference in party primaries, and a still less, though the only ostensible, motive was to separate relief from politics and clean up some incipient scandals which threatened to injure party reputation in 1940. In the long run the law may hurt the Republicans more, since G O P machines in Southern states were traditionally composed almost entirely of office-holders. Bill was modeled almost exactly on long-standing rules for civil service employes, which make Roosevelt's criticisms look silly.

Underwood & Underwood.

Senator Hatch—he took politics out of relief and many job-holders out of politics.

Logan-Walter bill to make all Federal administrative agencies follow uniform system of hearings, notices, appeals, reviews, and impartial treatment of businesses regulated would be big boon to all business and an over-due check on bureaucracy. New Dealers' frantic cries it would hamstring Administration sound phoney since bill was carefully drafted by American Bar Association and reported in both House and Senate. Senate passed bill, but motion to reconsider goes over to next session. Enactment then is generally expected.

Anti-trust policy of Administration got three quick body blows when courts threw out indictments of Chicago milk marketers and D C doctors and reversed Madison oil convictions. Latter is most serious of all since it applies rule of reason to price fixing incidental to market stabilization; Supreme Court will undoubtedly review, as two lines of anti-trust cases have never been reconciled and ultimate decision on this point is vital to practically all pending and planned anti-trust prosecutions. O'Mahoney bill for drastic penalties on corporation officers will be pushed next session, but with chances for passage very slim.

Oil control bill written by Ickes with Roosevelt's approval is much milder than previous proposals. Deals solely with prevention of waste in production to promote conservation for national defense and interstate commerce, does not deal with imports, exports, transportation, refining or marketing. Good case can be made out for it in view of failure of states to force conservation, and may have rather strong backing in Congress next session.

John L. Lewis' recent crack at Vice-President Garner with regard to labor baiting, etc., backfired immediately, and probably had much to do with the anti-Roosevelt attitude which was apparent in Congress' attitude during closing week. Which looks like several straws in the political winds.

Chrysler ~ Fastest Moving Motor

Now Pointing Up Again on Better Sales, Rising Profits

BY J. C. CLIFFORD

CHRYSLER at 5 back in 1932 and up 2,675 per cent four years later to a new all-time high—that part of the record has done much to give the issue its present mercurial qualities. Nowadays when Chrysler moves up or down three points in an hour, demonstrating its peculiarly sensitive reaction to market influences and its excellence as a trading vehicle, very few are surprised. The industry is recognized as a marginal one and the company as capable of tremendous growth when conditions are right but presumably still vulnerable to a slump. Therefore, despite leading the market on the upside in many recent movements, the stock has sold at less than four times earnings in three of the last six years. The occasions when it went begging for buyers at less than $10 a share are green in many memories. Not so many remember, however, that this is also one of the select company of common stocks that paid dividends straight through the 1929-1932 depression, nor that earnings in the first half of this current uncertain year have been almost equal to those for all of 1929.

The subject of market action comes early in any consideration of Chrysler because even when approached as a long-term proposition the possibilities of buying or selling at the wrong times are greater than average. Take the mere question of yield on investment. The fortunate person who bought the stock at 5 received an annual average of more than 100 per cent in dividends over the next five years. The purchaser at 135 two years ago, however, had to be content with less than 1½ per cent return over the next year and was faced at one time with a full 100 points loss of principal. Not even a generous dividend policy and fairly consistent growth in earning power can displace price trend from its number one position in the Chrysler picture.

Already recovered from a low of 35 to the middle 80s, the stock has apparently done considerable discounting of the improvement in the general business outlook. Yet at its high early this year the price was only 32 times first quarter earnings, while at the low point at the end of the first quarter a year ago it was selling at 73 times the profits per share for that three month period. In other words, a breaking market in 1938 capitalized earnings at an annual rate of 18 times, and the more hopeful 1939 market has considered a projection of first quarter profits worth only 8 times their level. If the rate of earnings could be maintained over the entire year and the future could be seen to hold similar results in store, there is no doubt that the price-earnings ratio would change radically. And for longer-term implications it is interesting to note that throughout the recent slump this issue has held stubbornly above the lows of the recovery years 1934 and 1935, is now selling at just under the low for 1936.

Chrysler's measurable accomplishments over the past decade have been spectacular. From less than a tenth of the total passenger car market in 1929 the company has come to control over a quarter, bringing it to second rank in the industry. All funded indebtedness has been retired out of earnings; there are no bank loans or other capitalization than the common stock; and cash has been increased 83 per cent in the ten years. After selling 451,000 units in 1929,

Unit Sales and Profit Margins

	Chrysler	De Soto	Dodge	Plymouth	Other	Total
UNIT SALES						
1929	81,857	56,763	139,272	84,200	3,985	366,077
1934	33,076	13,903	150,864	315,764	2	513,609
1935	45,609	31,605	261,646	385,685	....	724,645
1936	65,536	49,780	336,591	459,722	....	911,629
1937	101,874	82,983	336,139	458,518	....	979,514
NET PROFIT PER CAR						
1929	$125	$40	$57	$26d	$26	$50
1934	61d	224d	35	23	183,691d	14
1935	24	7d	76	46	....	53
1936	32	22	90	66	....	70
1937	22	18	63	49	....	48

d—deficit. From report of the Federal Trade Commission.

sales dropped to approximately half that total in 1932 but in the following year exceeded the 1929 figure and have never since fallen back to that level. On a dollar basis sales did not cross the 1929 record until 1935, but they have since held steadily above there and have on one occasion doubled the previous boom figure. Profit margins have also been improved, earnings applicable to the common stock equaling 5.8 per cent of sales in 1929, 6.8 per cent in 1935, 9.3 per cent in the following year, 6.6 per cent in 1937, and 4.6 per cent last year. The relatively poor showing in 1938 was due to three unsatisfactory quarters, but starting with the last quarter and continuing since profit margins have again risen above those of 1929.

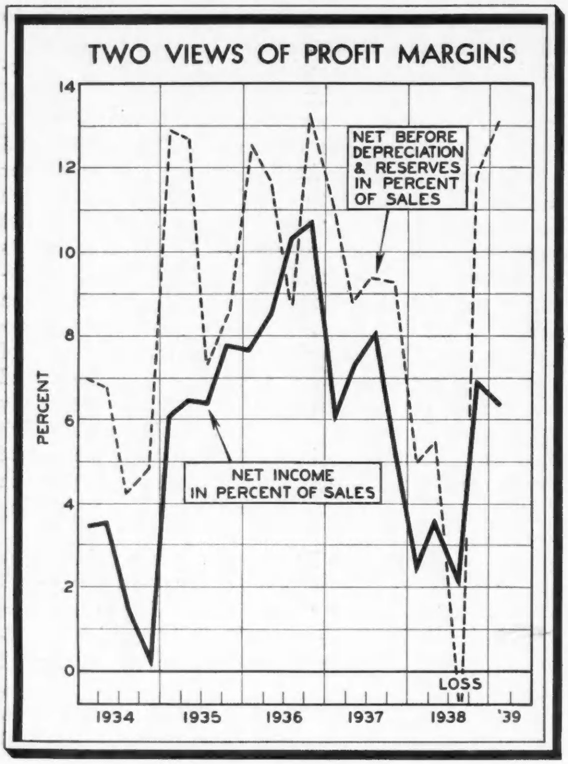
The fact that Walter P. Chrysler is no longer so active as formerly in his company has led many to watch carefully for signs of dwindling efficiency and earning power. Having been to a great extent responsible for the company's rapid rise, it is feared that loss of his direct and daily supervision may mean a trend in the other direction. The argument runs this way: Of course the first quarter earnings this year which set a new record for that period are cause for congratulation. Yet considering the extremely high level of sales, the company was not able to get as much out of its volume of business as it used to. Earnings were $11,638,000, sales $182,561,000. In the third quarter of 1937 profits were over a million dollars larger on sales of only $162,529,000. In the third quarter of 1936, too, profits were substantially larger on sales of $121,185,000, giving the company a profit margin of 10.3 per cent as compared with the recent one of 6.4 per cent. Even a comparison with the last quarter of 1938 shows some slipping in profit margin. The conclusion is drawn that factors which may or may not be controllable by the management have made it necessary to do an increasing amount of business to duplicate former earnings.

This is a logical conclusion if based only on the reported earnings figures, but it must be entirely changed if charges for two purposes are taken into consideration. The first of these—the charge for depreciation and amortization—fluctuates from quarter to quarter in some measure with the volume of production. Its size is such that it can make a very real difference in reported net income, according to the pace at which short-lived assets are written off. The second does not appear on the income statement as a charge, but can be inferred from changes in the balance sheet items called "Reserves—Operating and Contingencies." Increases in the total of these two items mean that earnings have been charged with reserves for one purpose or another and conversely any decrease in these figures means that charges which might have been debited to income have come out of the reserve funds instead. The propriety of changes in reserves is not in question—simply their effect on earning power.

If we adjust reported net income to eliminate the charges for depreciation and for reserves it becomes apparent that the company has been gaining rather than losing in its ability to show profits in proportion to volume of business. Where earnings in the first quarter of the current year were equal to 6.4 per cent of sales, earnings before depreciation were 10.5 per cent of sales, and earnings before depreciation and reserves were 13.1 per cent. This last figure has been bettered by only one quarterly period since the depression and then by a very slim margin. Between September 30th last year and March 31st of 1939 reserves were increased $7,231,000 after having been reduced by almost as much in the previous three quarters. Depreciation and amortization

Courtesy Chrysler Corp.

Plymouths receiving the final O.K. as they come off the assembly lines.



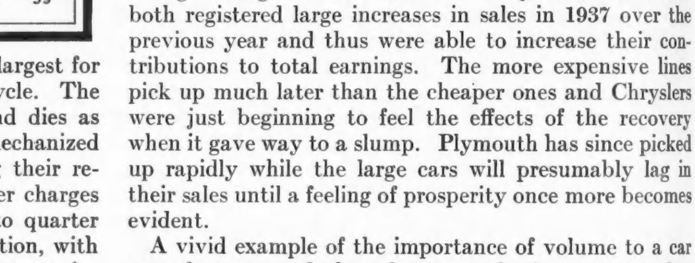
charges in the first quarter this year were the largest for any quarterly period in the whole recovery cycle. The trend is toward greater expenses for tools and dies as the industry becomes still more completely mechanized and since these are written off in full during their respective model years it is natural to see greater charges on this account. Fluctuations from quarter to quarter are caused by variations in the rate of production, with charges not only for tools but for plant and other equipment influenced by this factor. Broadly speaking, though, it is apparent that dread of declining true profit margins is premature.

The Federal Trade Commission has recently completed a study of the automobile industry which reveals several interesting facts about the sources of this earning power. For one thing, the Dodge line is shown to be the most profitable per unit not only for Chrysler but for the whole industry. F. T. C. figures are not on the same basis as those of the company reports and can be used only for comparison with others in the same report. They show that Dodge profits per unit reached a high of $90 in 1936 (compared with $57 in 1929) and slipped only to $63 in the following year. The peak in unit profits for Plymouth was $66 in 1936 against a loss on this line in 1929. Chryslers had yielded a profit of $125 per unit in 1929 but the best year in the recovery brought the figure only up to $32. De Soto profits have been few and scattered, contributing very little to the company's total earnings.

Chrysler accounted for 473,000 new passenger car registrations last year, divided as follows: 61 per cent Plymouth, 22 per cent Dodge, 10 per cent Chrysler and 7 per cent De Soto. Plymouth has long been the lowest-priced and largest-selling line of Chrysler's and it had been assumed that while profits per unit might be smaller than on others, say Dodge, for instance, total contribution to company earning power from this source would ordinarily be by far the largest. The F. T. C. report, however, makes it clear that Dodge is practically as important to the company as Plymouth and verifies the fact that the purchase of this well-established make back in boom days was an excellent investment. A great deal of credit is due the Chrysler management for bringing Dodge to its present position, as following peak sales of 331,764 units in 1926 Dodge sales had fallen to 83,121 in 1928. In that year Chrysler acquired the company and showed immediate success in building up its volume, with 1929 sales rising to almost 140,000. In 1936 the old peak sales record was exceeded with 336,591 units sold.

Plymouth's success in the low-priced group has been impressive. In 1929 there were 84,200 Plymouths sold and the company lost $2,168,000 on them. In 1936 sales came to 459,722 and the profit was $30,119,000. Plymouth profits dropped in the following year to $22,594,000 although unit sales were practically as high, but the reason for this lies in the handicaps the company faced in higher wages and other costs. Chrysler and De Soto both registered large increases in sales in 1937 over the previous year and thus were able to increase their contributions to total earnings. The more expensive lines pick up much later than the cheaper ones and Chryslers were just beginning to feel the effects of the recovery when it gave way to a slump. Plymouth has since picked up rapidly while the large cars will presumably lag in their sales until a feeling of prosperity once more becomes evident.

A vivid example of the importance of volume to a car manufacturer and the advantage the large maker has



over the small is given in Chrysler's experience with the Fargo line of trucks. Selling, advertising and administrative costs per unit sold amounted to $31 for Plymouth and $50 for Dodge in 1934. The cost per unit for Fargo in that year was $194,602. Only two units were sold in this country and the costs were necessarily divided between them. A great proportion of such expenses continue in bad years as well as in good, and on the other hand they move up more slowly when sales increase, giving earnings the benefit of marked leverage.

Parts and accessories constitute one of the conspicuously and steadily profitable activities of Chrysler as they do for its principal competitors. Even in 1932 when the motor vehicle divisions lost almost $11,000,000 (F. T. C. figures), a profit of $813,000 was shown on this supplementary business. By 1937 the part and accessory business had attained a volume of $28,459,000 or almost twice its size in 1929. Net profits from this branch, however, were only $4,422,000 as compared with $4,740,000 in the boom year and the profit margin had been cut from 32.2 per cent to 15.6 per cent. The former figure was undoubtedly too high and represented somewhat of an injustice to customers who were forced to come to the company for replacement parts and so forth at whatever terms the company chose to set. Over a period of years any attempt to hold profit margins so high in the parts business would probably have had a bad effect in discouraging the sale of new cars to those reckoning upkeep costs. On the other hand, an automobile company is only human to set the prices of parts high enough to demonstrate to prospective purchasers that the new car as a whole is a remarkable bargain compared to the total cost of its components. Not only should this stimulate turn-ins to avoid the cost of replacing parts, but it should theoretically spur sales to new prospects. At any rate, the sale of parts is both more profitable than the sale of new cars and far more dependable as a source of income during slumps.

The Federal Trade Commission mentions in its report the background of Chrysler's connection with the Commercial Credit Co. Between 1929 and 1937 Chrysler received a total of $3,820,260 from this company representing a share of its profits on business provided by Chrysler. Commercial Credit "recognized that designated services to be performed by Chrysler would be a valuable advertisement of Commercial Credit Co. and its business, plans and financing facilities, and would save it a substantial sum in promoting and acquiring business from dealers and should increase its business and profits." At the time of making the agreement Chrysler also acquired 50,100 shares of Commercial Credit stock for a total consideration of $1,067,200 or $21.31 a share and this was sold for $2,098,577. On November 15 of last year a consent decree was entered ending Chrysler's stake in the profits of Commercial Credit.

Courtesy Chrysler Corp.

Crowds are attracted by the talking Plymouth in the Chrysler Exhibit at the N. Y. World's Fair. It mystifies visitors by answering questions, naming the make of a smoker's cigarette or the number of a dollar an onlooker takes from his pocket.

The finance companies and the automobile manufacturers are mutually dependent to a great extent, although their relationships are now less direct. The volume of car sales that creates profits for the motor makers also sets the level of earnings for those who finance them, while the facilities for buying on the instalment plan are important sales aids in disposing of the car makers' production. In 1926 almost two-thirds of the cars sold in this country were sold on instalments, with the 1929 figure nominally lower. The trend was downward in depression years but turned up in 1933 from 54.6 to 56.8 per cent, presumably in part because of the feeling that a runaway inflation would work in favor of those carrying indebtedness against tangibles. Surprisingly enough, however, 1934 saw another slump in the percentage of time sales to the lowest point since the early twenties. This was a reflection of the conservatism and caution of the average man faced with an uncertain future and unwilling to obligate himself to regular payments. The reason this is interesting here is that another drop of even greater proportions has taken place in the percentage of time sales to total automobile sales—60.9 per cent in 1936, 57.2 in 1937 and approximately 52.0 last year. The 1934 drop might have been interpreted bearishly as an indication of reluctance to go ahead with new commitments, which it undoubtedly was. Yet the sequel was favorable as it so often has been following the spread of a wave of caution. (*Please turn to page* 479)

Rayon Enters New Phase of Dynamic Growth

With Prices Low, Profits Hinge on Further Large Expansion of Volume

BY MONROE E. MARSHALL

ROLLING up new records appears to have become a habit of the rayon industry, and production and consumption of rayon continue to attain new highs with almost monotonous consistency. This can be said of only a very few industries at the present time. In fact, Diesel engine manufacture and aircraft production are the only ones which come anywhere near matching the achievements of the rayon industry. All three of these industries do, however, share the common advantage of being comparatively young and therefore unhampered by the circumscribing factors usually present in more mature fields. In short, there is nothing to indicate that their era of greatest growth has been put behind them.

The commercial production of rayon in the United States began in 1910. Since then in every year but four production has registered an important increase. The years following those in which output declined recorded gains more than sufficient to make up the previous loss, and the current year will be no exception. Rayon yarn production in 1938 declined nearly 20 per cent from the 1937 level. In view of the fact, however, that consumption of all rayon last year set a new high record, and exceeded production by nearly 16,500,000 pounds, the decline in output reflected in a large measure the desire of producers to let inventories run off, rather than any tapering off in the rate of growth.

In the first six months of 1939 production of rayon yarn totaled 193,900,000 pounds as compared with 166,400,000 pounds in the same months a year ago. In the same period this year shipments of rayon yarn to domestic consumers amounted to 161,100,000 pounds, an increase of 62 per cent over shipments in the first half of 1938, and slightly above the previous record figure of 160,500,000 pounds in the first six months of 1937. On the basis of the current showing, the promise of a new peak in both production and consumption of rayon yarn this year appears well founded.

Also significant was the fact that last year consumption of rayon yarn for the first time surpassed that of wool. This is the second natural fiber which rayon has passed, consumption having exceeded that of silk nearly twelve years ago. Moreover, rayon has in recent months substantially extended its gains at the expense of silk. A tight supply situation in silk has forced prices up to a point where a pound of silk now costs about five times that of a pound of rayon. As a result many fabricators have been compelled to substitute rayon for silk in order to maintain a competitive price. Rayon is in fact threatening to invade the last stronghold of silk—the hosiery industry which in May of this year accounted for 89 per cent of the total domestic consumption of silk.

To the increasing competitive strength of rayon and the public acceptance of rayon fabrics, the industry owes much to the progress which has been made in manufacturing technique and processes.

At the present time practically all rayon is manufactured by two processes—the viscose process and acetate process. Rayon is produced by forcing a liquid

Domestic Rayon Production and Consumption

(000's pounds)

	Viscose and others	Actate	Staple Fiber	Total Consumption (a)
1929	112,954	8,445	500	131,465
1935	202,010	55,547	6,061	252,676
1936	214,926	62,712	25,021	297,602
1937	239,316	82,365	40,858	267,074
1938	181,795	76,121	53,337	274,050

(a)—Exclusive of staple fiber. Consumption of stable fibre in 1929 was 384,000 pounds; 1935, 6,061,000; 1936, 25,021,000; 1937, 40,858,000; and 1938, 53,337,000 pounds.

Leading Domestic Rayon Producers

	Net Income (000,000's			1939 Price Range		Recent
	1938	1937	1936	High	Low	Price
Celanese Corp	2.5	4.5	4.4	29⅛	13⅝	27
Industrial Rayon	0.2	0.3	1.4	29½	16¾	28
North American Rayon	0.5	2.3	2.0	22¾*	13⅛*	91*
Tubize Chatillon	0.3	0.7	0.7	13⅛	7	10

* A shares.

compounded of cellulose, chemicals and water through a fine nozzle. Viscose and acetate rayon differs in the manner in which the cellulose liquid is solidified to form a fibrous thread. About 75 per cent of the domestic production of rayon yarn employs the viscose process, but in recent years production of acetate rayon has increased substantially. Since 1934 output of acetate yarn has more than doubled and during the past ten years the proportion of acetate to the total rayon production has risen from 7 per cent to 25 per cent.

Acetate yarn has certain qualities which make it somewhat superior to rayon produced by the viscose process. This together with the substantial lowering of acetate prices which has occurred over the past decade has made possible the impressive increase in the use of acetate. Ten years ago the price of acetate was half again as high as the price of viscose yarn. This price differential has been steadily whittled down and at the present time acetate sells only slightly higher than viscose. That some portion of the gains made in the acetate division have been at the expense of viscose is indicated by the fact that last year total production of viscose fell below that for the three preceding years, while that of acetate although lower than in 1937 was substantially ahead of both 1935 and 1936.

Triangle Photo

Finished rayon yarn being inspected and wound into cones for shipment to the rayon fabric manufacturer.

Placed on the defensive, the viscose division is under the compelling necessity of finding ways and means of lowering costs and improving the quality of its product. A step in these directions has been taken recently by Industrial Rayon. The company has developed a continuous spinning proces reputed to be capable of spinning yarns at a rate 800 times faster than methods now used. Some idea of the time saved by this new process is indicated by the fact that at one time it required 90 hours to complete the processing of viscose yarn. It is claimed by Industrial Rayon that by its new methods it will be possible to process yarn in 6½ minutes. Early in June the company began to market yarn made by this new method for which a much superior quality is claimed. Industrial Rayon has offered to license other manufacturers to use this new process but so far none has taken advantage of it, apparently awaiting for a more definite line on its success. It is certain, however, that if the claims made for the continuous spinning method are substantiated other manufacturers will be compelled to adopt it.

A new division of the rayon industry, and one which is gaining in importance by leaps and bounds, is the manufacture of staple fiber. Staple fiber consists of rayon filament yarns cut into short uniform lengths. These are spun into a yarn, used principally for mixing with wool and as a substitute for cotton.

In 1928 the total domestic production of staple fiber was only 165,000 pounds. In every year since 1930, however, production has recorded phenomenal gains and last year reached a total of 29,833,000 pounds. Productive capacity is being taxed to its limits and to meet demand it was necessary to import 23,200,000 pounds of staple fiber last year. Trade estimates place output in the first six months of the current year at 50 per cent ahead of 1938 and consumption in the same period is estimated at 60 to 70 per cent over a year ago. Imports of staple fiber in the first five months totaled 16,841,000 pounds, more than three times the amount imported in the same period of 1938.

Like acetate yarn, the rapidly accelerating rate of consumption of staple fiber has been accompanied by a marked improvement in quality and lower prices. Through the introduction of new processes staple fiber has been made strongly water-repellent and its tensile strength increased. Current prices of staple fiber, around 25 cents, are half of what they were ten years ago. Competitive to an extent with both wool and cotton, it will be necessary that rayon staple prices maintain a sufficiently attractive ratio to cotton and wool prices to encourage consumption. Low prices for cotton and wool would mean relatively lower prices for rayon staple, if its effectiveness as a mixing fiber is to be retained.

All divisions of the rayon industry, however, have been favored by a more stable price structure than any of the important textiles. A synthetic fiber, rayon lends itself more readily to manufacturing control, thus mitigating recurring threats of excessive production and an unbalanced supply-demand situation. The last time rayon yarn prices were under serious (*Please turn to page* 478)

As the Trader Sees Today's Market

Twelve Groups in the Dividend Forecast Considered for Technical Action

BY FREDERICK K. DODGE

WITH the general market decisively through its last intermediate rally top the most pertinent questions of comparative group action are only partially answered to date. Looking back over the past year, however, much can be seen that has a bearing on what is happening in the market now and what is to follow in the near future. The Amusement group, for instance, acted better than the broad average last fall right up to the October peak and this can probably be set down to seasonal influences. Attendance and earnings were getting the benefit of improved conditions at a time when the trend of both would normally be up without the definite change in general outlook. On the way down the group acted about as well as could be expected, setting a series of falling tops but holding at the April low point somewhat above the low of a year earlier. Laying a ruler across these tops will disclose that the recent rally has broken decisively through this line, in contrast to the action of the broad average. Perhaps this is an indication that expectations of autumn box office results are again rising. On the other hand, the supply area around 42 stopped three rallies last year and may again prove troublesome.

In the current issues of the Dividend Forecast, of which this is Part II, with Part III to follow, the Trader looks at the charts of group action shown opposite and indicates his opinion of the technical behavior of each. The facts and figures bearing on these industries will be found in the Dividend Forecast beginning on page 446.

—EDITOR'S NOTE.

Automobile accessories show a formation of the head and shoulders type, with the head exactly at the turn of the year. Right armpit and right shoulder were lower than the left and action since then, though characteristically volatile, has not been good. The April low was above the low of 1937 and 12 points or 28 per cent above the 1938 low. This is encouraging for the longer term and the recent rally has pushed the group somewhat further up into the trading range of last August and September than in the case of the broad average.

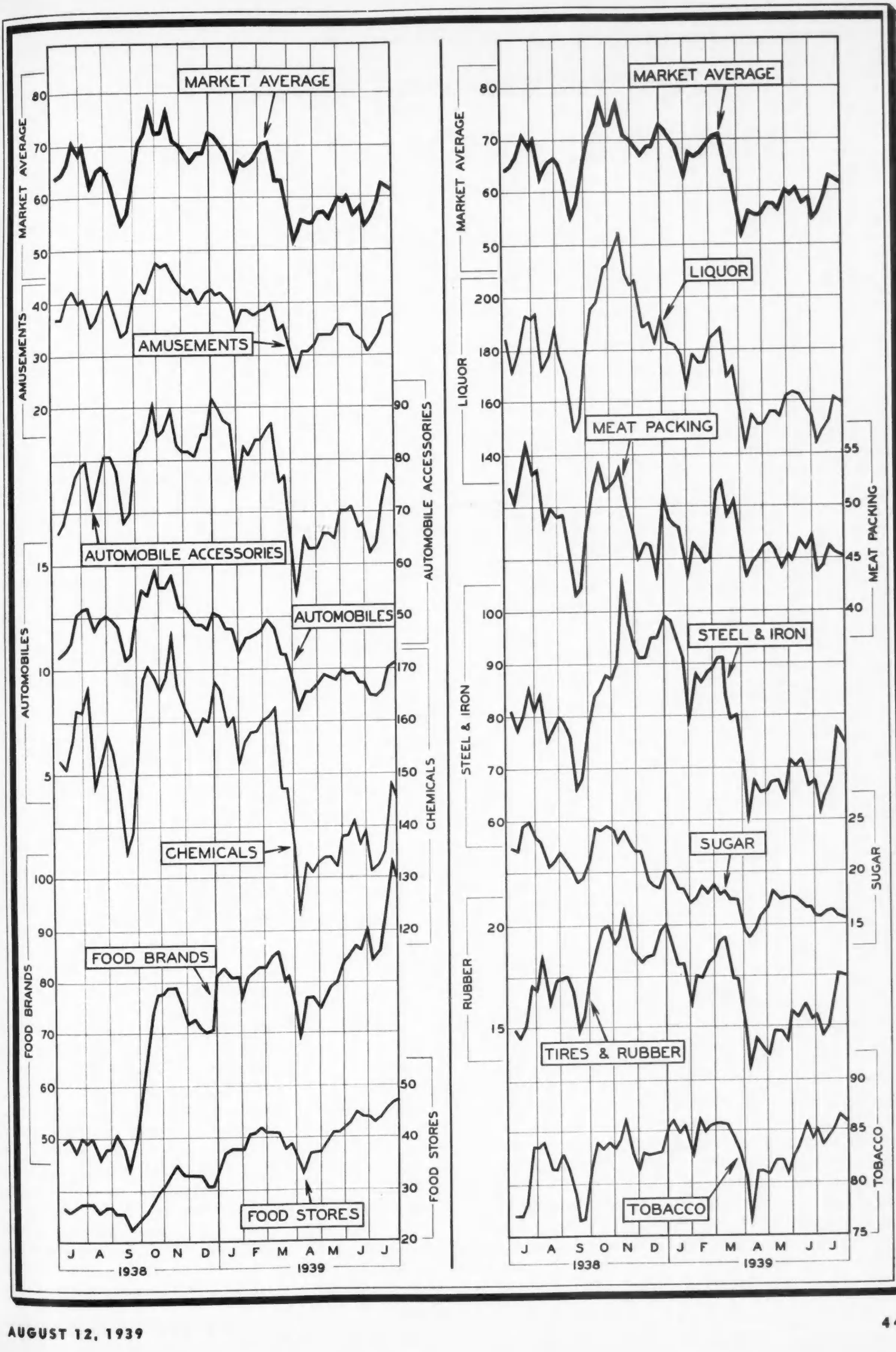
The rally in the Automobile group has hardly more than duplicated the early June top and has failed to reach a point equal with last September's war crisis low. Furthermore, the series of falling tops has not been definitely broken, as can be seen by laying a ruler across the tops since last October. Included in this group are a number of low-priced issues which have not yet begun to show earning power and for which prospects must remain obscured until later in the recovery, assuming continuation. The normal action for the group is to lag in the early stages and it has been following precedent to date.

Chemicals have rallied to about the line of descent formed by their November and March tops and far above their low of last September. At their low point this year they were some 10 per cent above the 1938 low and except for the one week in April they have held about at the low point of 1937. Longer term technical outlook will take on a much more encouraging aspect if the current rally can be extended in decisive fashion.

The action of the Food Brands group has been the most spectacular of any shown here. A markup of 60 per cent in barely more than the single month of October has been followed by three tops at successively higher levels, the last of which has now been penetrated by a wide margin. Except in April the bottoms have also been at successively higher levels, and the April low held approximately at the December low. Food Stores have been somewhat less spectacular in the markup but their strength has been even more consistent than Food Brands, particularly at weak points in the general market. In both cases the size of the gains suggests that these groups are out of the bargain class, but there is nothing on the chart as yet to indicate the end of the uptrend.

The contrast between such groups and the Liquors is marked. The recent low was only about 2 per cent above the low for the entire bear market starting in 1937 and the rally has not yet penetrated the top set by the previous rally. The steep decline has shown no signs of ending except that the downtrend formed by falling tops has been broken through. Whether seasonal influences can improve market action from here on is a question yet to be answered.

The Meat Packing group is evidently still laboring under depressing influences as its unusually protracted line of descending tops shows. Plainly to be seen, though, is a remarkably consistent area of support which has stopped five declines from going further. If a triangle with a flat base and a (*Please turn to page 477*)



MARKET AVERAGE
AMUSEMENTS
AUTOMOBILE ACCESSORIES
AUTOMOBILES
CHEMICALS
FOOD BRANDS
FOOD STORES
LIQUOR
MEAT PACKING
STEEL & IRON
SUGAR
TIRES & RUBBER
RUBBER
TOBACCO
J A S O N D J F M A M J J
1938
1939

Appraisal and Special Mid-Year Dividend Forecast

Part II — Foods, Sugar, Tobacco, Movies, Chemicals, Liquors, Steels, Automobile Accessories, Automobiles

WHATEVER doubts and uncertainties there may be in Europe and in domestic politics, business activity in the first half of this year averaged far above that in the first half of 1938 and the trend, turning for the better from the recession low of April, is now pointing up. This is reflected favorably in a majority of the half-year corporate earnings statements now coming to hand.

Despite the lapse of the undistributed earnings tax, there is a tendency toward reasonable liberality in dividend policy, especially on the part of strong companies well fortified with cash. Increased or resumed dividends greatly exceed reduced or omitted dividends. Barring war, this trend should continue.

Part II of our Mid-Year Dividend Forecast is here presented, covering the industries listed at the top of this page. Part III in our issue of August 26 will cover Metals, Oils, Building Materials, Merchandising and Miscellaneous Industries.

The tables are accompanied by our investment ratings, explanation of which is presented at the left. As an added service feature, issues favored for safe income are marked with a star symbol; issues favored for cyclical appreciation potentialities with a dagger symbol; and issues which have paid substantial dividends for ten consecutive years or longer with an asterisk.

Two fundamental factors, the industry and the company itself, are used to form our ratings. The letters, A, B, C, D, are used in connection with the industry according to the current and prospective activity in the field. These letters are not concerned in any way with individual companies. The numbers, 1, 2, 3, 4, are used for rating the company on its earning power, current and prospective.

INDUSTRY	COMPANY
A—Active, further progress indicated.	1—Good earning power; substantial gains indicated.
B—Active, further progress may be slow.	2—Improvement in earnings expected.
C—Depressed, prospect for recovery favorable.	3—Gain in earning power may be slow.
D—Depressed, no nearby improvement indicated.	4—Earnings outlook unfavorable.

Outlook Favors Food Group

Numerous Candidates for Income

ACCELERATED by a higher level of consumer purchasing power, food sales in the first half of the current year have been running from 8% to 10% ahead of last year. With prices, however, still averaging about 5% below last year, the current volume of tonnage sales makes an even more impressive comparison than dollar sales. The food industry is essentially a volume business, depending upon large scale consumption to offset narrow profit margins. In the circumstances any adverse factor which has the effect of disturbing the sensitive balance between costs and selling prices would be likely to take a heavy toll of profits. Also, and despite the relatively high measure of stability which characterizes food consumption under virtually all conditions, only a comparatively small drop in sales usually results in a sharp drop in earnings of representative food processors. It was the combination of declining volume, lower prices and the compelling necessity of working off high cost inventories that cut heavily into the earnings of practically all major divisions of the food industry in 1938. Since then, however, progress has been made in restoring a more normal balance between supply and demand. Prices are still low but are being largely offset by lower raw material costs and rising consumption.

The best situated division of the food industry at the present time is represented by the processors of packaged foods distributed under

Position of Leading Food Stocks

Company	Earned Per Share 1938	Earned Per Share 1st 6 mos. 1939E	Price Range 1939 High	Price Range 1939 Low	Recent Price	Dividend	Market Rating	COMMENT
Armour.........	d2.14(a)	NF	6⅛	3¾	4	....	B-2	Planning refunding operation. Prospects better but divs. remote.
Beatrice Creamery.	3.02(b)	3.35(k)	28	17	26	1.00	B-2	Earnings rising. Extra divs. probable.
★Beech-Nut Pack.	5.78	2.50A	128½	113½	128	4.00	B-2	Earnings stable. Should continue to pay extras.
Borden..........	1.51	0.75	22	16½	21	1.20	B-2	Last half earnings outlook better. Dividends secure.
California Packing.	d2.83(b)	NF	20⅝	13¼	18	....	B-3	Prospects favor some improvement. Divs. uncertain.
Cont'l Baking "A"	4.41	0.75A	22⅛	11½	16	....	B-2	Non-recurring expenses cut 1st half earnings. Outlook fair.
★Corn Prod. Ref..	3.18	1.32A	66⅞	54⅞	62	3.00	B-3	Foreign competition cuts net. Divs. reasonably secure.
★Cream of Wheat.	2.08	0.83A	32½	26⅝	32	2.00	B-3	Earnings stable. Divs. secure.
Cudahy Packing..	d7.56(a)	NF	16	10⅝	11	....	B-2	Should show marked improvement this year.
General Baking...	1.27	0.27A	11	8⅛	8	0.60	B-2	Sales rising but current earnings may fall below '38.
★General Foods..	2.50	1.44A	47⅞	36⅝	47	2.00	B-1	Earnings give adequate dividend protection.
★General Mills...	4.17(c)	7.69(c)	99	72½	87	2.87½(j)	B-2	New products aid earnings. Extra divs. likely.
Hecker Products..	0.53(f)	1.00(f)	13⅛	8⅝	12	0.85(j)	B-2	May continue to pay extras.
★Hershey Choc...	4.17	3.04A	65½	54	65.	3.00	B-2	Current earnings gain impressive. Dividends secure.
Libby McN. & L..	d1.60(b)	NF	6⅜	4⅛	5	....	B-3	Near term prospects uncertain.
Loose-Wiles.....	1.51	0.54A	22¼	17	23	1.00	B-3	Current earnings up moderately. No change in dividends.
★Mead-Johnson..	9.02	NF	150¼	125	145	3.00	B-2	Paid $7 in '38. Further ext as likely.
Morrell, John....	2.63(a)	NF	39	33	34	2.00	B-2	Earnings may warrant continued $2 rate.
Nat'l Biscuit.....	1.76	0.79A	28¼	23⅛	26	1.60	B-3	Outlook moderately better. No change in dividends.
Nat'l Dairy......	1.70	1.00	18⅛	12½	17	0.80	B-2	Earnings up. May pay more this year.
★Penick & Ford..	3.09	1.54A	57⅞	48	57	3.00	B-3	Earnings hold near '38 level. Dividends reasonably safe.
★Pillsbury.......	d0.10	3.08(c) A	31	23	27	1.60	B-2	Low raw material costs favor earnings outlook.
Purity Bakeries...	1.52	1.13A	18½	10¾	18	0.65(j)	B-2	Earnings improve and additional dividends likely.
Snider Pking.....	1.31(H)	0.66(H)	21⅛	12⅛	21	....	B-2	Outlook somewhat better. Divs. not imminent.
Standard Brands...	0.62	0.24	7¼	6	6	0.50	B-3	Earnings fall just under present dividends.
Stokely Bros......	1.09(c)	d	6¼	3⅝	5	....	B-4	Divs. will be deferred for some further time.
Swift............	d0.73(a)	NF	19⅞	17	18	1.20	B-2	Current prospects better. No change in dividends.
United Biscuit....	2.08	0.95A	18¾	15⅞	18	1.00	B-2	Divs. likely to be earned by good margin.
Ward Baking "A"	d11.58	d	14⅞	8½	11	....	B-3	Current operations show larger loss in 1st quarter.
Wilson..........	d0.96(a)	NF	5	3¼	3	....	B-2	Some improvement in sight. Divs. not likely.

(a)—Year ended Oct. 31. A—Actual earnings. (b)—Year ended Feb. 28, '39. (c)—Year ended May 31. (d)—Deficit. (E)—Estimated. (f)—Year ended June 30. (H)—Year ended Mar 31. (j)—Paid this year. (k)—12 mos. to May 31, actual earnings. NF—Not available. ★Safe income.

nationally advertised brand names. Representative of this group are General Foods, Standard Brands, Beech-Nut, Hecker Products, General Mills and Pillsbury Flour. Prices of principal raw materials are still low and for the most part their statistical position is such that a substantial rise in the near future appears unwarranted. Moreover, these companies are favored by having a wide diversity of products, all subject to large scale advertising and other promotional efforts which assure them a sizable market not greatly affected by competition from private brands.

Other divisions which promise to improve on their 1938 showing this year include dairy products, bread and biscuit bakers and corn refiners. Although the presence of large surpluses of butter and other dairy products has the effect of restricting prices on these products, the Food Stamp Plan inaugurated by the Government may permit these surpluses to be absorbed by the needy in a more orderly fashion than under the previous plans of distribution, thus relieving some of the pressure on prices. Bread and biscuit bakers should reflect in current earnings the favorable implications of low wheat and sugar prices and increased consumption. Lower corn prices should aid domestic operations of corn refiners, although competition abroad has cut profits on foreign business. Competition also, in the shape of small local bakers, will probably prevent leading cracker bakers from restoring prices to a level which would mean a really worthwhile gain in earnings.

Last year as a result of unusually favorable growing conditions the principal vegetable packs were much larger than the market could readily absorb, packers suffered a sharp setback in earnings, and entered their current fiscal year with large stocks on hand. Concerted sales efforts and lower prices have enabled packers to speed up the movement of stocks into consumption and Government surveys indicate that such crops as tomatoes, peas, corn and string beans will be reduced from 13% to 30% this year. Rising consumption and more normal supplies may permit canners to raise prices sufficiently to restore normal profit margins, with a correspondingly favorable effect upon earnings.

A favorable factor in the outlook for meat packers is the rising supply of hogs, presaging increasing slaughtering operations and while pork, bacon and ham prices are likely to remain low, consumption is at a high level and packers' costs will drop in proportion to the stepping up of plant operations. Barring the unlikely prospect of serious inventory losses before the close of the fiscal year (Oct. 31) packers this year should be well in the black. Cattle supplies are still sub-normal but are rising and promise to continue doing so for several years. Meanwhile, packers' earnings should also reflect the advantage of higher prices for hides and a sustained demand for other by-products.

Sugar

Barring the possibility of a European war, there appears scant likelihood that the coming months will bring any significant change in the unprofitable operations of the sugar industry. This applies to domestic refiners as well as Cuban producers. Despite the reduction earlier in the year in the domestic quota, the present figure is in excess of consumption for any year since 1930. Inventories in the hands of refiners are sizable and competition between beet and cane refiners has forced prices down to a level below the minimum required for refiners to show a profit. The lower duty promised to Cuban producers has not materialized as yet. Until the statistical position of sugar, both raw and refined, has improved profits will be severely restricted.

Position of Leading Sugar Stocks

Company	Earned Per Share 1938	Earned Per Share 1st 6 mos. 1939	Price Range 1939 High	Price Range 1939 Low	Recent Price	Dividend	Market Rating	COMMENT
Am. Crystal Sugar.	2.33(a)	0.19(a)	10½	6¼	8	....	C-3	Scant likelihood of early divs.
Am. Sugar Ref...	d6.10	NF	22½	15¼	16	....	D-3	Low profit margins preclude early div. resumption.
Cent'l Aquirre As.	2.66(b)	1.75(E)	22⅛	18⅛	19	1.50	C-3	Will probably maintain $1.50 rate.
Cuban-Am. Sugar.	d0.77(c)	NF	5	3	3½	....	D-3	Outlook dubious. Divs. remote.
Fajardo Sugar....	3.81(b)	2.50(E)	29½	20	24	2.00	C-3	May show some improvement in coming months.
Francisco Sugar...	d0.61(f)	NF	3¾	1½	2½	....	D-4	Dividends not in sight.
Great West. Sugar.	3.08(h)	1.47(h)	28	24	25	2.00	C-3	Profit margins low. Divs. uncertain.
Guantanamo Sugar	d9.63(c)	NF	1¼	½	½	....	D-4	Prospects vague for common.
Holly Sugar......	1.69(a)	1.05(a)	15¼	10	10	....	C-3	Slight prospect of early div. resumption.
Nat'l Sugar Ref...	d2.23	NF	13	10⅝	10	1.00	D-3	Dividend rate uncertain. Profits restricted.
So. Porto R. Sugar.	1.12(c)	NF	20⅝	14	16	1.00	C-3	Earnings probably cover present $1 dividend.

(a)—Year ended Mar. 31. (b)—Year ended July 31. (c)—Year ended Sept. 30. (d)—Deficit. (E)—Estimated. (f)—Year ended June 30. (h)—Year ended Feb. 28. NF—Not available.

Tobacco

Cigarette production in June set a new high, passing the 16 billion mark for the first time in history. Costs, both of raw material and labor, appear to have stabilized so that with the benefit of increased production, earnings promise to be moderately ahead of last year, with the more marked comparisons reflecting shifting competitive gains by the five leading manufacturers. Consumption of snuff continues to hold to its characteristic stability and with the three leading companies dividing the market, continued liberal dividends are forecast. Energetic promotional campaigns to encourage cigar smoking are apparently bearing fruit. The long term downtrend has been arrested and consumption thus far this year is running better than 5% ahead of last year.

Position of Leading Tobacco Stocks

Company	Earned Per Share 1938	Earned Per Share 1st 6 mos. 1939	Price Range 1939 High	Price Range 1939 Low	Recent Price	Dividend	Market Rating	COMMENT
★Amer. Snuff....	3.32	NF	68	59½	66	3.00(x)	B-3	Shares attractive for income. Further extras likely.
Amer. Tob. "B"..	4.89	NF	89¾	75½	85	5.00	B-2	Outlook better. Divs. secure.
Axton-Fisher "A"	14.18	NF	48½	35½	43	....	B-3	Divs. on A shares not imminent.
Bayuk Cigar......	3.01	1.75	25½	15¼	24	0.75	B-2	Sales gaining. Could pay more.
General Cigar....	1.81	0.31	25¼	19⅛	20	2.00	B-3	Dividends must be regarded as speculative.
★G. A. Helme...	5.84	NF	117	110	110	5.00(x)	B-3	Earnings stable. Further extras likely.
★Lig. & Myers "B"	6.09	NF	109¾	99½	109	4.00(x)	B-3	Earnings likely to justify $5 div.
Lorillard.........	1.78	NF	24⅜	19½	23	1.20	B-3	Further gain in current earnings forecast.
Phillip Morris....	7.27(a)	7.50(a)	103½	82½	90	3.00(x)	B-2	Earnings good but taxes may cut gains.
Reynolds Tob. "B"	2.37	NF	45	35⅛	40	2.00(x)	B-2	Company reported regaining competitive ground.
★U. S. Tobacco...	1.74	NF	37½	33	36	1.28	B-3	Earnings stable. Divs. secure.
Universal Leaf....	7.14(b)	NF	84¾	69	85¼	4.00(x)	B-3	Current operations should support liberal dividends.

(a)—Year ended Mar. 31. (b)—Year ended June 30. (x)—Plus extras. ★—Safe income. NF—Not available.

Motion Pictures

Motion picture production costs have been lowered, greater care is being exercised in the selection of feature material and following the normal hot weather slump, box office receipts should respond to increased public spending. On the basis of this prospect Loew's, Twentieth Century-Fox, Paramount and Warner Bros. should show at least moderately better earnings this year. Looking further into the future, the outlook for the industry is clouded by the uncertainties arising from anti-trust suits and the difficulties both current and potential which threaten the important foreign market. In the case of both Loew's and Twentieth Century-Fox, however, there appears to be no immediate threat to earnings and both issues invite consideration for income.

Position of Leading Motion Picture Stocks

Company	Earned Per Share 1938	Earned Per Share 1st 6 mos. 1939	Price Range 1939 High	Price Range 1939 Low	Recent Price	Dividend	Market Rating	COMMENT
Columbia Pictures.	d0.06(f)	NF	15⅝	7⅛	10	(a)	B-3	Reported a deficit in Mar. quarter. Outlook uncertain.
Consolidated Film.	d0.34	d0.08	2⅛	1⅛	1⅜	....	B-4	Outlook doesn't favor early improvement.
★Loew's.........	5.65(h)	4.62(k)	54½	35	45	3.00	B-2	Downward earnings trend should be reversed shortly.
Paramount.......	0.55	0.62	14⅛	6⅞	10	0.15(b)	B-2	Current earnings up. May pay another dividend.
Radio-Keith Orph.	NF	NF	2⅞	½	2	....	B-3	Reorganization progressing slowly.
Technicolor......	1.24	NF	22¼	14	15	0.35(c)	B-2	Further gain in earnings and divs. forecast.
★20th Cent.-Fox..	3.35	1.55	16¼	16⅝	21	2.00	B-2	Earnings down but adequate for $2 dividend.
Warner Bros......	0.41(h)	NF	6⅛	4	5	....	B-2	Earned 71 cents in 39 weeks to May 27.

(a)—Paid 2½% in stock 3/15/39. (b)—Initial dividend. (c)—Paid this year. (d)—Deficit. (E)—Estimated. (f)—Year ended June 30. (h)—Year ended Aug. 31. NF—Not available. (k)—40 weeks to June 8. ★Safe income.

Liquors

The liquor industry is beset by a number of adverse factors which have the effect of clouding near term earnings prospects. Stocks of aging whisky continue to rise, increased taxes are restricting consumption. The resulting pressure on smaller and inadequately financed rectifiers threatens to break out in a wave of price cutting at any time. Leadership appears to have become definitely established in a few large companies, but with well founded doubts as to the probable trend of near term earnings, the high yield on dividend-paying liquor stocks suggests a greater than average risk.

Position of Leading Liquor Companies

Company	Earned per Share 1938	Earned per Share 1st 6 mos. 1939	Price Range 1939 High	Price Range 1939 Low	Recent Price	Dividend	Market Rating	Comment
Dist. Corp.-Seagrams.	3.75(a)	2.62(b)	20½	15½	18	2.00	B3	Earnings sufficient to provide for present dividends.
Nat'l. Distillers.....	3.85	1.03	28½	23¼	24	2.00	B3	Current earnings lower but dividends reasonably safer.
Schenley Distillers..	2.46	0.13	17⅞	11⅛	12	....	B4	Company appears to have lost competitive ground.
Hir. Walker-G. & W.	8.04(c)	4.01(f)	50¾	37	45	4.00	B3	Earnings would suppor higher dividends.

(a)—Year ended July 31. (b)—9 mos. to April 30. (c)—Year ended Aug. 31. (f)—6 mos. to Feb. 28.

Chemicals

The first six months of this year produced an impressive gain in the sales and earnings of leading chemical companies, reflecting at the outset the better demand for finished chemical products entering into direct consumption and later, enlarged industrial takings as general business picked up. Companies near the end of the second quarter were reporting sales gains of 25 and 30% and output at the present time for the chemical industry as a whole is running some 15% ahead of last year. The usual summer lull in demand promises to be of comparatively brief duration, to be followed by a further upturn in the fall months. Although earnings in the final six months will have to stand comparison with the better showing made by the industry in the last half of 1938, results promise to be favorable. Earnings gains, however, will be restricted to some extent by a series of undercover price cuts made in a number of basic chemicals. The chemical industry has in the long run thrived on lower prices and there is no reason to suppose that current reductions are anything more than another step in the long term trend of matching increased consumption with lower prices.

Research, the arch of the chemical industry, continues to be highly productive, bringing within the industry's scope new products and processes which will be tomorrow's money makers. A number of the leading chemical units have announced definite plans for the introduction of new products in the near future, while industrial uses for the new types of solvents and plastics are being steadily broadened in almost every major field.

Representative chemical stocks characteristically sell at a high ratio to earnings and the average issue offers little inducement from the standpoint of income. Favored by a strong growth factor, however, the industry offers numerous investment candidates for cyclical appreciation.

Position of Leading Chemical Stocks

Company	Earned Per Share 1938	Earned Per Share 1st 6 mos. 1939E	Price Range 1939 High	Price Range 1939 Low	Recent Price	Dividend	Market Rating	COMMENT
†Air Reduction...	1.47	0.87A	65⅝	45¼	56	1.00(a)	A-2	Current divs. should total at least $1.50.
†Allied C. & Dye.	5.92	3.50	193	151½	171	6.00	A-2	Divs. secure. Current earnings estimated higher.
Am. Agric. Chem.	2.23(c)	1.00(c)	24¼	16	18	1.40	C-3	Earnings lower. Div. prospects uncertain.
★Am. Cyan. "B".	0.91	0.80A	28⅜	18⅜	28	0.60	A-2	Earnings show impressive gain. May pay more.
Atlas Powder....	2.69	1.12	66¾	50⅝	52	2.00(a)	A-2	May pay a small extra.
★Columbian Carb.	5.13	3.00	94	73	93	4.00	A-2	Current outlook better. May pay an extra.
Com'l Solvents...	d0.11	0.16	13¾	9	11	....	A-3	Further gains would warrant small dividend.
†Dow Chemical...	3.91f	3.95f	135	10½	127	3.00	A-2	Outlook promising. No change in dividends imminent.
†du Pont........	3.74	3.28A	164¼	126¼	161	2.50(b)	A-1	Current divs. will exceed $3.25 paid in '38.
Freeport Sulphur..	1.87	0.82A	30	18¼	22	1.00	A-3	Current divs. may be less than $2 paid in '38.
†Hercules Powder.	1.95	1.52A	86	63	76	0.80(b)	A-2	Paid $1.50 in '38. Current divs. should be higher.
★Heyden Chem..	2.06	NF	41½	30	41	0.80(b)	A-3	Some earnings recovery probable. Dividends secure.
Int'l Agric. Chem.	d1.01(c)	NF	3⅛	1½	1¾	....	C-3	Company entering new fields. Dividends remote.
Mathieson Alkali.	1.01	0.40	36	23	23	1.50	A-3	Strong cash position supports div.
†Monsanto......	2.35	1.60A	111	85¾	104	2.00	A-2	Earnings up sharply. Divs. safe.
Newport Industries	d0.08	0.29A	17⅛	8½	12	....	A-3	Earnings better. Could pay small dividend.
Tex. Gulf Sulphur.	1.81	0.85A	32⅝	26¼	29	2.00	A-3	Earnings lower. Divs. may be maintained.
†Union Carbide...	2.77	1.18A	90½	65½	83	1.40(b)	A-1	Divs. should equal $2.40 paid in '38.
★United Carbon..	3.78	2.25	65¾	52	63	1.50(b)	A-2	Earnings and prospects better. Will pay at least $3.25.
U. S. Ind. Alcohol	d1.08	(n)	25¾	13½	18	....	A-4	Current earnings lower. Divs. remote.
†Victor Chemical.	1.05	0.63A	25⅞	18¼	42	0.50(b)	A-2	Current divs. may exceed 90 cents paid in '38.
★Westvaco Chlo..	1.52	1.11A	25¾	15¼	25	1.00(a)	A-2	May pay another extra.

(a)—Plus extras. A—Actual earnings. (b)—Paid this year. (c)—Year ended June 30. (d)—Deficit. (E)—Estimated. (f)—Year ended May 31. (n)—Nominal. NF—Not available. ★—Safe income. †—Cyclical Appreciation.

Position of Leading Steel Stocks

THE steel industry operated at about 53% of capacity during the first half of 1939 as compared with approximately 31% in the same period a year ago. The nine largest companies in the business representing close to four-fifths of total capacity showed an aggregate profit of $20,622,000 to which only one contributed a loss. Last year six of these companies were in the red in the first six months and the total deficit for the half came to $11,748,000. While this appears to be a reasonably good recovery it actually is not and the blame for the failure to do better rests directly on the price structure which has not been completely healthy at any time for a year and a half.

Company	Earned Per Share 1938	Earned Per Share 1st 6 mos. 1939E	Price Range 1939 High	Price Range 1939 Low	Recent Price	Dividend	Market Rating	COMMENT
Acme Steel......	1.15	1.83A	45	31½	38	1.00	C-2	1938 dividends totaled $1.25; this year's should be larger.
Allegheny Ludlum	d2.04	0.12a	28¼	14	18	....	C-2	Large deficits ended, but dividends problematical.
Am. Roll. Mill...	d1.16	0.23A	22¾	11⅞	15	....	C-2	Arrears on preferred prevent common dividends.
†Bethlehem Steel.	d0.70	0.78A	80	50¼	60	0.50	C-2	Resumed dividends and should make further payments.
Byers, A. M.....	d3.79b	0.37A	13¼	7	11	....	C-3	Earnings recovering, but dividends out of question.
Colo. Fuel & Iron.	d1.47c	def.	23¾	11⅛	15	....	C-3	Losses eliminated in first half of calendar year. No dividends.
Continental Steel..	2.32	2.24A	29¼	16⅛	27	1.00e	C-2	Larger dividends are probable along with earnings rise.
Crucible Steel....	d8.78	d1.09A	47¾	24½	32	....	C-2	Earnings recovering; divs. will await clearing of preferred arrears.
Granite City Steel.	d0.86	0.09A	20	10	15	....	C-2	Gradual improvement foreshadow eventual dividend resumption.
†Inland Steel.....	3.12	2.33A	94⅝	67	78	2.50e	C-2	50c quarterly rate may be augmented by extra late in year.
Jones & Laughlin..	d17.33	d5.04A	39	17	46	....	C-3	Large preferred arrears and continued losses; no dividends.
Keystone St. & W.	0.96c	1.10c	13	8¾	12	0.65e	C-2	Dividends in current fiscal year should increase moderately.
McKeesport Tin Pl.	d0.93	0.32A	18⅜	8¾	12	0.50e	B-3	Moderate earnings improvement should continue.
National Steel....	3.03	1.99A	81½	52	63	1.00e	C-2	More consistent than average steel Co.; divs. now 40c quarterly.
Otis Steel.......	d2.17	d0.69A	15	7½	10	....	C-2	Price weakness in motor business an obstacle; no dividends.
†Republic Steel...	d1.86	d0.02A	25⅜	12⅞	17	....	C-2	Returning profits still do not cover preferred divs. in arrears.
Sharon Steel.....	d1.01	d0.75A	21¾	10¼	14	....	C-2	Losses reduced but dividends will be delayed.
Superior Steel....	d2.57	d0.50	22½	10	15	....	C-2	No dividends in sight but break-even point now close.
U. S. Pipe & Fdy.	2.38	2.06A	49	35	41	2.00	C-2	First half better than in 1937; dividends secure.
†U. S. Steel......	d3.79	d1.22A	70	43¼	50	....	C-2	Paying preferred divs. out of surplus, but outlook encouraging.
Wheeling Steel...	d2.44	1.43A	31¾	15⅝	24	....	C-2	Sharp gains in earnings may hasten dividends; none since 1930.
Young't'n Sh. & T..	2.89	0.08A	55⅞	30	41	....	C-2	Uptrend should continue but dividends will probably lag.

†—Attractive for cyclical appreciation. A—Actual. E—Estimated. a—March quarter. b—Year to September. c—Year to June. d—Deficit. e—Paid last year.

When the largest consumer of steel —General Motors—can report earnings of over $100,000,000 during the same period in which the largest steel producer earns less than $2,000,000 then something is decidedly out of balance. One may conclude that the strength of the purchasers and their insistence upon lower prices is responsible together with chronic over-capacity for periodic breaks in quotations for steel. Since none of these conditions is subject to early change that would be a discouraging view. There appears to be good reason to believe, however, that a good part of the trouble lies within the steel industry itself and may therefore be corrected if recognized as the cause of lagging profits. Several leaders in the business have made the issue very clear. The president of the American Iron & Steel Institute said early this month: "We are now selling below cost and there is no reason for such a situation except failure on the part of management in the industry to be profit minded."

The drive is now definitely under way to get back to the old fundamental rule of doing business at a profit or letting someone else have it. If it can be sold to the industry a complete change in the earning power and dividend policies of most major companies is a possibility, since this county under normally prosperous conditions needs steel as much as it ever did. (Production in the first six months of this year was at an annual rate equivalent to 70% of the 1929 all-time record.) The outlook for the industry is thus completely bound up with a psychological question the answer to which is pure conjecture. Profits will grow with rising volume in any event, since prices tend to stiffen when mills are busy, but the *margin* of profit in the future is still doubtful.

The president of Bethlehem Steel Co. is on record to the effect that tonnage contracted for during the recent price war will be delivered to the automobile companies right through the remainder of the year, and other producers undoubtedly face the same condition. Even without further weakness a certain amount of damage has already been done to last-half profits. This would be a small obstacle, though, if price wars could be avoided in the future and if the present favorable trend of orders could be maintained. The immediate outlook in these respects is quite good and one many reasonably expect to see larger earnings in the last half of 1939 than in the first together with moderately increased dividend payments. Over the longer term most steel companies will continue sporadic earners and dividend-payers though excellent vehicles for taking advantage of swings in the business cycle.

Position of Accessory and Tire Stocks

Automobile manufacturers call upon the independent accessory companies for a smaller proportion of their total parts requirements when business is slack and they can use their own facilities than in periods of mounting assemblies. Over and above the marginal nature of the business which gives it a high leverage the accessory makers are therefore subject to sizable fluctuations in relation to the volume of the car manufacturers. A partially offsetting and stabilizing factor is the substantial amount of replacement business which goes on regardless of the rate of production of new cars; and other influences in certain individual cases are the sidelines which have been developed, such as the manufacture of parts for the aircraft industry.

Earnings trends of most accessory companies are characteristically volatile, frequently changing several times within a single year. Yet capital structures are in general so free of funded debt or preferred stock and the number of common shares is so small that profits on these equities are likely to exceed those of most of the automobile manufacturers to whom they supply parts. Furthermore, the practice is to maintain a noticeably liquid balance sheet position, and dividends for that reason are generous in relation to earnings. Few issues in the group could qualify as attractive long-term investments for income, but considering total dividends over the last decade in the light of current market prices it must be admitted that the industry has some attraction even from the income standpoint. Present prospects, at least, are favorable enough to justify a prediction of larger earnings and dividends over the last half-year than in any other six months since 1937.

Manufacturers of tires and rubber goods have in their favor a well-defined trend toward wider use of their products and since they are direct beneficiaries of the improvement in business conditions now going on the outlook for their full-year profits is encouraging. Dividends will not be generous in relation to earnings as in the case of the motor accessory companies, but they seem likely over the medium term to justify fully current market prices for the leading rubber stocks. A firm price structure for crude rubber is also in favor of the latter group, particularly those companies with sizable plantation investments.

Company	Earned Per Share 1938	Earned Per Share 1st 6 mos. 1939E	Price Range 1939 High	Price Range 1939 Low	Recent Price	Dividend	Market Rating	COMMENT
Bendix Aviation..	0.07	0.49a	29¾	16⅜	25	....	B-2	25c already paid, further dividend expected with better earnings.
Bohn Aluminum..	0.52	0.85A	28½	16¼	21	0.50b	B-2	Profits running well ahead of 1939 and dividends will increase.
†Borg Warner....	d0.01	1.00	32	18¾	25	1.00	B-2	25c quarterly dividends should be maintained, possibly increased.
Briggs Mfg.......	0.42	1.00	31⅞	16¼	22	1.00	B-2	Earnings may permit larger dividends later in year.
Briggs & Stratton..	2.16	1.15a	41	31	41	3.00	B-2	Dividends now being covered and should be maintained.
Budd Mfg.......	d1.15	0.04A	8	4	5	....	B-3	Current profits first since 1937. No dividends.
Budd Wheel.....	d0.52	0.27A	5⅝	3	4	....	B-3	Fourth quarter result may bring a small dividend.
Campbell, Wyant. & Cannon......	d0.33	d0.11A	17¾	9⅛	12	0.25b	B-2	Dividends may lag after profits are restored.
Clark Equipment..	0.64	1.83A	26	15	24	0.25b	B-2	Earnings in first half almost triple 1938; dividends in uptrend.
Clev. Graphite Br..	0.96	1.16a	30⅞	20⅛	29	1.00	B-2	25c quarterly rate earned for year in first quarter; may increase.
Collins & Aikman.	3.85c	1.71c	36¼	20¼	31	1.25b	C-2	Loss in May quarter much reduced; 25c quarterly dividends should continue.
Eaton Mfg.......	0.03	1.83A	27⅛	15¼	26	0.25b	B-2	Now paying 50c quarterly; continuation quite likely.
†Elec. Auto-Lite..	1.53	2.50	38½	22¼	36	1.00b	B-2	Dividends in first half $1.25; last half probably larger.
Firestone T. & Rub.	1.27e	0.75f	25⅞	17⅝	20	1.00	B-2	Dividends totaled $1.25 last year; earnings increasing.
General Tire.....	1.97g	1.96h	27⅝	15⅜	21	0.50b	B-2	Dividend later but will be conservative in relation to sharply higher earnings.
Goodrich, B. F...	0.14	NF	24¾	13½	18	....	B-2	Earnings up but divs. will lag.
†Goodyear Tire...	1.34	1.35	38⅜	21⅛	28	1.00	B-2	25c quarterly rate will probably be increased or extra paid.
Houdaille Hershey "B"..........	0.20	0.38a	17¼	8¾	13	....	B-2	Dividends on "B" resumed; should continue.
Kelsey-Hayes "B".	d5.19	0.63A	10¼	5⅛	7	....	B-2	Full-year results may permit a modest dividend.
Lee Rub. & Tire..	3.72e	2.55f	35½	25	32	2.50b	B-2	Last payment 75c; dividends should equal or top last year's.
Midl'd Steel Prod.	2.45	2.47A	30¾	18⅜	28	1.00b	B-2	Current rate 50c quarterly and should be maintained.
Motor Products...	d1.58	0.17a	19	9½	13	....	B-2	No dividends expected over near-term.
Motor Wheel....	0.73	0.49a	16⅜	10	16	0.40b	B-2	Last year's earnings may double and dividends will rise accordingly.
Murray Corp.....	1.57	0.01a	9⅛	4⅜	5½	....	B-3	Dividends not in sight, but results improving.
Raybestos-Man...	0.51	0.50a	22¼	16¼	20	0.92½	B-2	25c quarterly rate should continue and may be increased.
Reynolds Spring..	d1.50	0.25a	11⅜	5⅛	8	....	B-2	Although results are better, dividends will lag.
Spicer Mfg.......	0.29	2.42A	26⅝	11	26	0.50b	B-2	Has already equalled 1938 dividend, and will probably pay substantially more.
Stewart-Warner...	d0.24	0.12a	12⅝	7	9	....	B-2	Further pick up in earnings would be likely to bring dividends.
Thompson Prod...	1.33	2.13A	28¼	17	24	0.25b	B-2	Earnings gaining substantially; moderately higher dividends expected.
Timken-Det. Axle.	0.70	0.75	18⅜	10¾	14	0.50b	B-2	Increase over last year's dividend is likely.
*Timken Rol. Bear.	0.59	0.79a	54¼	34¼	46	1.00	B-2	Profits growing and will permit increased dividends.
†U. S. Rubber....	0.18A	1.50	52¾	31¼	44	....	B-2	Common dividends may wait until 1940, despite excellent profit trend.
Young Sp. & Wire.	d1.71	0.30	21¼	9¾	12	....	B-3	Non-recurring profits bulk of 1st half earnings; no dividends.

†—Attractive for cyclical appreciation. *—Substantial cash dividends over 10-yr. period. a—March quarter. b—Paid last year. A—Actual. E—Estimated. c—Year to February. d—Deficit. e—Year to October. f—6 mos. to April. g—Year to November. h—6 mos. to May.

Automobile Sales Trends Encouraging

PRODUCTION of the automobile industry in the first quarter of this year totaled just over a million units and in the second quarter just under the same figure, registering a gain for the half of 57% over a year ago. Toward the end of the production season small but strategically important strikes held up work and currently, of course, assemblies have been sharply curtailed until the new models come off the lines. Dealers have been stocked rather heavily for this period when production is at a standstill with cars in their hands recently some 25% higher than at the same time in 1938. Considering the excellent sales reports for summer months, though, there seems to be reason to consider the position statistically about as sound as a year ago. This conclusion is naturally subject to some modification in case of a shift in trend during the few weeks remaining of the model years.

The industry is optimistic about fall prospects and expects that 1939 will see an increase of around one-third over last year in unit production while profits of the makers will be benefitted to a far greater degree. Gains of this kind are inevitably felt first by the largest manufacturers. Chrysler and General Motors have completed six remarkably profitable months while the independents with only one or two exceptions have been engaged in a struggle to reduce losses. As volume continues to pick up, however, it allows the spreading of the more rigid costs over a greater number of units and reveals earning power that might not have been suspected. The independents are generally slow starters in regard to both profit margins and volume of sales — a fact which makes their equities more speculative and which is allowed for to a certain extent in the prices of their issues.

The motor industry finds its fluctuations in volume much sharper than those in national income or prosperity for two reasons: first, because its appeal is a marginal one, effective only after underlying wants have been satisfied; second, because the decision to buy on the part of those who have the purchasing power comes as a result of confidence in future income. The second reason is responsible for the periodic waves of automobile buying which are out of all proportion to changes in the actual state of owners' pocketbooks. Thus, although Department of Commerce figures show that income payments to individuals in the first half of 1939 were only 4% below the same part of 1937, dollar sales of passenger cars were about 25% lower. The implication is clear that despite the pickup already recorded volume could go much higher in the near future based on buying power, if confidence should improve.

Sales of trucks and buses have picked up almost as sharply as those of passenger cars, but here too profits from increased production show a lag in the early stages. With the outlook for volume favorable, companies concentrating on these lines are expected to extend their earnings gains over coming months. Dividends in both passenger car and truck divisions, however, will continue scattering except in the case of the largest companies.

Position of Leading Motor Stocks

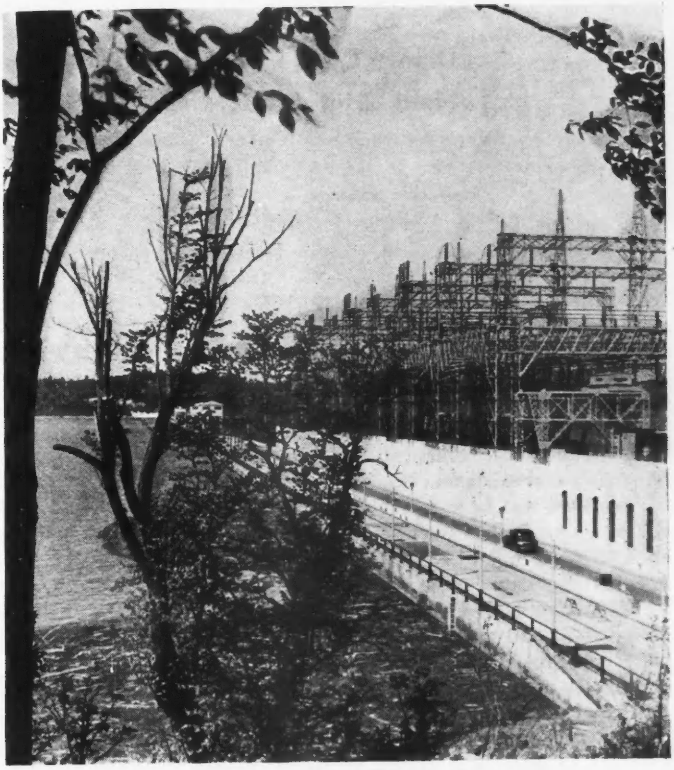
Company	Earned Per Share 1938	Earned Per Share 1st 6 mos. 1939 E	Price Range 1939 High	Price Range 1939 Low	Recent Price	Dividend	Market Rating	COMMENT
†Chrysler	4.32	2.67a	85¼	53⅝	81	2.00b	B-2	Dividends in first half $2.50. See article in this issue, page 438.
Ford Motor, Canada, "A"	1.96	NF	23	16⅞	20	1.00	B-2	Trend favors moderately higher earnings, sustained dividends.
Ford Motor, Ltd.	0.10	NF	4¾	3⅜	4	0.17b	B-2	Dividends may decline unless profits improve materially.
*†General Motors	2.17	2.24A	51⅝	36⅜	48	1.50b	B-2	Dividends should at least double last year's if uptrend continues.
Graham-Paige	d0.65	d0.25A	1⅜	⅝	⅝	....	B-4	Losses somewhat reduced, but no dividends likely.
Hudson	d2.94	d0.55a	8⅞	4⅜	5½	....	B-3	Dividends must wait further progress in regaining earning power.
Hupp	d1.27	d0.12a	2⅛	1	1	....	B-4	Consistent quarterly losses show some reduction. No dividends.
Mack Trucks	d1.56	d0.16a	30¾	18¾	22	....	B-3	Small dividend may be considered if earnings uptrend holds through year.
Nash-Kelvinator	d1.78c	d0.32e	9¼	5½	7	....	B-3	Prospects encouraging; no dividends likely this fiscal year though.
Packard	d0.11	d0.07A	4¾	3	3½	....	B-3	Second quarter loss contrasted with earlier profit. No dividends.
Reo	d1.24	d0.15a	1¾	⅞	1⅜	....	B-4	Negotiating with RFC for working capital. No dividends.
Studebaker	d0.80	0.35A	9⅛	5⅛	9	....	B-3	Sales gains aiding profits, but deferred interest will postpone dividends.
White Motor	d2.92	d0.75A	13¾	7	9	....	B-2	Losses halved; sales gain may produce profits, but dividends will be slow.
Yellow Truck "B"	d0.16	0.30A	21¾	11⅝	17	....	B-3	Preferred in arrears, but profit trend favors eventual dividends.

†—Attractive for cyclical appreciation. *—Substantial dividends over 10-yr. period. A—Actual. a—March quarter. b—Paid in 1938. c—Year ended September. d—Deficit. e—Nine months to June.

New Conditions Favor Utilities

Volume Rising and Political Threat Checked

BY EDWIN A. BARNES



Conowingo Dam, Maryland

Conspicuous among stocks making new 1939 highs in recent market sessions have been the shares of leading public utility operating companies. Market attitude toward the public utility industry, which for a long time has been in the Administration "dog house," appears to have undergone a very definite change for the better. Congress currently has contributed to this attitude by limiting the extent and defining the circumstances under which loans would be granted for the construction of municipal power plants in competition with existing facilities. Congress has also placed a definite financial limitation on TVA. Current operating results of leading power and light companies are showing progressive improvement and earnings comparisons with a year ago have been getting steadily better. Power consumption has been running well ahead of last year and there is a strong probability that before the year ends a new peak figure will have been reached. Current earnings also are beginning to reflect the substantial savings which many utility companies have been able to effect in fixed charges by taking advantage of low interest rates to refund bonded indebtedness with new low coupon issues.

Public utility shares do not promise spectacular price gains. Their industrial background is good, and getting better. The prospects, however, favor gradual rather than rapidly accelerating gains in earnings. This is a setting which should invite the consideration of the investor whose circumstances require reasonable safety and dependable income.

Following are brief thumbnail analyses of six leading operating companies. All of these companies have a good record of sustained earnings and dividend payments over an extended period of time and their shares, although selling at or near their '39 highs, are still obtainable on a basis to yield an attractive income return.

Commonwealth Edison, since its inception in 1907, has never failed to show a yearly profit or pay a dividend. The company's territory embraces an area of 11,000 square miles, with Chicago as its focal point, and comprises the second largest metropolitan area in the country, as well as widely diversified agricultural, industrial and commercial interests. The completion earlier this year of an extensive refunding program resulted in a very substantial savings in fixed charges and subsidiary preferred dividends. As a result, the company in the first six months of this year was able to carry virtually the entire gain in gross revenues to net income. Based on 10,003,524 common shares outstanding as of July 14, last, earnings in the first six months were equal to $1.24 a share. For all of 1938, earnings were equal to $2.57 a share. The present dividend of $1.60 annually is well protected earningswise and at recent levels around 31, the shares yield about 5 per cent.

Pacific Gas & Electric is the second largest operating utility in the country. Serves San Francisco and adjacent territory. Revenues at a new high last year, although net was cut by higher taxes. Earned $2.47 a share for outstanding common stock. Current earnings running ahead of a year ago. Capitalization well balanced and finances adequate. Common dividends, $2; recent price, 33; yield 6%. *(Please turn to page 476)*

Profits from Expansion Delayed

Crown Cork & Seal, Now Fully Integrated in the Container Field, Still Expects to Benefit from Newly Added Lines

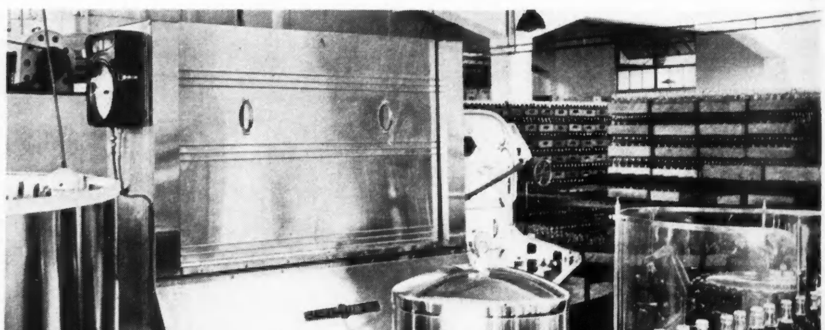
BY HENRY RICHMOND, JR.

THERE is only one question which those interested in the Crown Cork & Seal Co. really want answered and there is nothing to be gained by not putting it plainly. It is whether or not the company has bitten off more than it can chew. Financial history is littered with the remains of corporations whose business in a comparatively narrow field was once more than satisfactory but which got into a morass of never-ending trouble with a broadened scope of operations. Is Crown Cork & Seal to be one of these, or will it eventually be found among those whose trials and tribulations led to an era of prosperity far greater than would have been possible had they not gone beyond original activities? Before attempting an answer let us see exactly what it is that Crown Cork & Seal has been doing in recent years.

A few years ago the company engaged in no activity that compared in importance to its "crown" bottle caps and the capping, bottling and mixing machinery which supplemented this line. So far as it went, the company was predominant in its field and the business very generally profitable. Recent history shows only one year, the unhappy 1932, when a loss after charges was reported. Following this, there were a number of years of consistent and important improvement. Repeal of Prohibition and the resulting greatly increased demand for bottle caps on the part of brewers was an important factor in lifting net profit to a peak of $2,332,048 in 1936.

In the meantime, however, Crown Cork & Seal had been growing steadily more ambitious, for there promised to be a return of real prosperity and the company was going to be no stand-patter. As early as 1934 it began a program making for greater self-sufficiency in raw material requirements. By 1936 it was operating its own mill for the cold reduction of steel sheets and had completed the installation of equipment for the production of aluminum foil. Also, the company was about ready to produce aluminum-coated steel sheets. In passing, it might be noted that a bottle cap consists of an outer casing of tin plate, usually lithographed, a disc of composition cork and a disc of aluminum foil.

Yet, while important as these developments were, they were far less sensational than Crown Cork & Seal's invasion of the tin can and glass container fields. Today, the company is a fully integrated manufacturer of containers and stoppers therefor. It makes beer cans, packers' sanitary cans, general line cans; it makes cans for motor oils and for paint and varnish; it makes mason jars and the rubber rings and caps therefor; it makes caps for milk bottles and caps for pharmaceutical and other industries—all, of course, in addition to its original line of "crown" caps and supplementary machinery.



Courtesy General Electric

A modern bottling plant uses hundreds of thousands of "caps" daily.

Seven Year Record of Expansion

	1932	1933	1934	1935	1936	1937	1938	1939 (b)
Total Assets (a)	$15,350	$16,232	$17,060	$19,351	$33,614	$42,199	$42,595	....
Funded Debt (a)	4,373	4,316	4,316	5,500	5,375	5,250	15,125	....
Pfd. Stock* (stated value) (a)	6,180	6,180	6,180	6,180	9,563	9,563	9,563	....
Common Stock (No. of shares)	370,544	370,619	370,620	370,620	515,153	517,601	517,606	....
Sales (a)	$6,863	$9,553	$10,880	$14,161	$15,623	$24,786	$24,380	13,088
Net Income	(d)21	951	1,284	1,881	2,332	1,625	1,213	796
Earned per Common Share	(d)1.06	1.51	2.41	4.02	3.66	2.16	1.37	105

(a)—000 omitted. *—$2.25 Preferred since 1936; $2.70 in prior years. (d)—Deficit. (b)—Six months to June 30.

Figures accent the difference between the present Crown Cork & Seal Co. and the Crown Cork & Seal of a few years ago. For 1938 total net sales were in excess of $24,000,000, whereas in 1933 they totalled less than $10,000,000. Today, total resources are in the neighborhood of $43,000,000 which compares with total resources of no more than $16,000,000 at the close of 1933.

Or, look at it from the standpoint of capital liabilities. At the end of 1933 the 370,620 shares of common stock were outranked by $6,180,000 in preferred stock and funded debt of $4,300,000. Today, there are 517,606 shares of Crown Cork & Seal's no-par value common stock outstanding with the public and senior to these there is $9,562,500 in $2.25 cumulative preferred stock, with a stated value of $42.50 a share, and a funded debt of some $15,000,000.

On the other hand, while Crown Cork & Seal is a much bigger company doing a much bigger business than the one of the same name a few years ago, the lines that have made it larger have contributed nothing on the whole to net profits and therefore nothing to the income of the corporation's owners. Indeed, the large losses sustained by the Crown Can Co., a wholly-owned subsidiary in which the more important of the new container activities have been concentrated, have been eating into the profits of the company's old-established lines. The can-making subsidiary had a loss last year of $1,125,636, after depreciation of $574,706 and amortization of pre-operating costs and patents of $32,939. In 1937, the first year in which the Crown Can Co. is considered to have operated commercially—although activities averaged only a small percentage of planned capacity—the loss was $1,097,262.

The importance of these losses may be realized by comparing them with the consolidated profits reported for the years 1937 and 1938. The net consolidated profit for these years was $1,624,599 and $1,213,227, respectively. Had there been no loss from can making—ignoring the possibility of taxation or other adjustments—the profit for the two years would have been $2,721,861 and $2,338,861, respectively. These differences are so material that the stockholder is quite justified in asking how much longer the old-established profitable lines must continue to carry the new and evidently not-yet-well-established lines? The query is especially pertinent when profits from old-line products begin to suffer from the impact of recession in general business, as was the case last year and the beginning of this.

The decline in earning power has been reflected directly in dividends paid. Last year a single distribution of 50 cents a share on the common was made. So far this year holders of this stock have received nothing.

There is no denying that the failure of the Crown Cork & Seal Co. to make a quicker success of its new and ambitious adventures represents an important "debit" from the standpoint of the prospective stockholder. On the other hand, it would be unjust not to point out that the picture is by no means devoid of "credits." In the first place, is it not possible that insufficient allowance has been made for the fact that Crown Cork & Seal is a relatively small company which has invaded the field of such giants as American Can and Continental Can? An immediate and unqualified success would have branded the latter as grossly inefficient and no one who has followed the record of these two companies—to say nothing of others in the container field—could tenably take this attitude. Certainly, the optimism which drove the then outstanding common stock of Crown Cork & Seal to a high of 91½ in 1936 was overdone, for while the plants of the can making subsidiary at Philadelphia, St. Louis, Houston and Madison, Wisconsin, and the parent company's main plant at Highlandtown, Baltimore, are all operating, they are *still* considerably below peak production and efficiency.

This is not wishful thinking, but fact. Specifically, production of cone-type beer cans is still trending upwards. Seamless cans, for which a great demand is foreseen on the part of the brewing industry, were produced last year but no deliveries were made, for the company dared not take the risk of interruptions. Then, too, Crown Cork & Seal has other irons in the fire which so far have contributed little but expense to the enterprise. Such a one is the Stero-Vac process. This uses a "valve can" into which steam is introduced after filling. Preservation of the contents is achieved in this manner much faster than by conventional methods and the resultant product is said to more nearly resemble the fresh. Stero-Vac was tried out last year with considerable success, but not enough food was so packaged for general sale. Also on the list of obviously developing potentialities are certain glass and cork products. Work on the new cork grinding division was suspended for a time on account of the depression, but it will be operating this year. It will make possible the use of certain grades of cork which the old equipment was unable to handle.

Finally, although it is a "credit' of a general nature and not one for which the company's management can claim responsibility, one interested in the Crown Cork & Seal Co. can hardly afford to ignore the effects of improvement in general business which has now been under way since the third week of April, according to The Magazine of Wall Street's index of business activity. This has reversed the downward tendency in Crown Cork's old-line business. The consolidated net profit for the first quarter of its present year was equivalent, after dividend requirements on the (*Please turn to page* 475)

The Stockholder's Guide

Sharp Rise in Profits for Half, But Manner of Reporting Still Imperfect

BY J. S. WILLIAMS

MID-YEAR company reports which have been reaching stockholders in volume over the past few weeks have one very desirable quality almost unanimously in common—they bring cheerful news. Red ink persists in a few, but even there the amount used is likely to be smaller than in corresponding periods of a year ago, and some of the most important concerns have shown really surprising earning power. Coming not long after a period of outward pessimism, when it was predicted that the second quarter could not equal the first and might mark the start of another downtrend, these reports are doubly welcome even when they are sketchy or deficient in some way in conveying the proper information to stockholders.

Figures on the earnings of 365 leading industrial companies in the first half of 1939 show a gain of slightly more than 100 per cent over a year ago. Although profits in the second quarter were higher than in the first the rate of gain over corresponding periods in 1938 was somewhat lower in the second quarter. Compilations of this sort mean little in comparing individual performances with the average, but they do confirm the fact that the gains have not been confined to the business activity index. They are dollars and cents proofs that the "profitless prosperity" era is still around the corner somewhere. Sooner or later a good part of this enlarged income will find its way into stockholders' pockets or be invested in improvements to the earning power of the concerns reporting them.

There is no reason, though, why the good result could not be reported to the owners of each business in a way that would inspire confidence and interest entirely aside from the gains or losses shown. Directors found in 1932 a great deal of resentment, much of it unfair, toward their past policies. This was the human reaction to a series of depressing drops in earning. Recovery apparently eliminated much of the criticism and ill-feeling. It will flare out again, though, when conditions of that sort recur; and the time to cultivate friendly, trusting relations with stockholders is when things are going along smoothly, not suddenly when the management is on the defensive.

Representative First-Half Earnings Gains

	1938	1939
Johns Manville	d 24,897	1,203,744
Westinghouse Electric	4,500,602	6,338,787
Caterpillar Tractor	1,132,614	2,315,380
Republic Steel	d 5,918,881	1,083,311
General Electric	13,176,956	16,370,192
United Aircraft	2,421,711	3,678,689
du Pont	18,937,605	39,871,535
U. S. Gypsum	2,181,219	3,117,857
Union Carbide	7,931,058	10,751,404
U. S. Steel	d 6,302,577	1,970,311
Air Reduction	1,684,347	2,232,595
General Motors	33,020,019	100,992,531

d—deficit.

One of the outstanding reports as far as profits are concerned is also without a superior in its completeness and method of presentation. General Motors Corporation gives the usual type of balance sheet, which, by the way, only a small proportion of enterprises furnish in their interim reports. General Motors, however, goes a step further and presents a comparison of each asset and liability with the corresponding figures for six months and a year earlier. This involves no extra preparation, nor does it disclose anything unknown to Wall Street, since the prior figures are on the record. It merely makes it easier for the average stockholder who has not the former figures at his disposal to draw his own conclusions as to the state of his company now and in the recent past. It shows that the company is trying to convey information, not reluctantly filling a requirement in a minimum way.

The General Motors income statement is also on a comparative basis, showing unit sales by dealers to consumers in the United States, sales to dealers within the country, and total sales to dealers including Canadian sales, overseas shipments and production by foreign manufacturing subsidiaries, in adidtion to the dollar totals for net sales. This

figure was up almost 37 per cent in the second quarter of 1939 as compared with the same period in 1938, while for the half year sales showed an increase of more than 41 per cent over the first half of 1938. Net income in the second quarter was up 93 per cent to $47,815,000, and in the half was up 206 per cent to $100,993,000. Another convenient and highly pertinent fact is given in showing earnings for each period per share of common stock after deducting preferred dividends.

A full but concise operating review traces the course of general business and makes further examination of sales, discusses employment and employee benefit plans in some detail. With the labor question so important and unsettled today, this is one of the questions most frequently in the minds of owners, but least frequently answered. A financial review then discusses income statistics and explains the working capital position. The Chairman then goes on to point out the broader trends of industry, particularly in the opening up of new fields through inventions and developments, the creation of jobs and the wide spread of benefits from these trends. This is institutional promotion of the long-range type and it takes the stockholders into Mr. Sloan's confidence on what he believes to be a subject worth the consideration of all.

The policy laid down by General Motors fourteen years ago is so well stated that it should be a model for other corporatoins. It reads: "The management recognizes its responsibility to inform stockholders from time to time, as circumstances may indicate, of such salient facts relating to the business, both statistical and financial in character, as will enable them to form the most comprehensive judgment possible as to the effect of passing events on the Corporation's progress.

"This obligation extends to such general influences as, according to the beliefs of management, may alter the Corporation's opportunity for constructive accomplishments, particularly such forces or influences as may develop within the economic area, as they are of special importance in affecting the stockholders' interests. This is meant to embrace such economic policies as might be adopted by the management in the interests of the business, or might result from a general industrial trend, or might relate to industry by action of government. Irrespective of what their origin might be, it is considered an essential responsibility of management to inform the stockholders frankly as to the facts and circumstances believed to exist, *regardless of whether their influences be favorable or unfavorable as affecting the operations of the business.*" (Our italics.)

At the opposite extreme is a company which will not be named, and which indeed has some excuse for reticence since it has never tried to popularize its stock or take the limelight in any way. It is nevertheless one of our large corporations and its report for the June quarter contains exactly one significant figure. That is called "Income, after deductions for expenses, taxes, maintenance, repairs, depreciation, depletion and contingencies." Not a word of explanation or information accompanies it. A few stockholders—the officers and directors mainly—know what sales were, how expenses have been running, how well the property is being kept up, the adequacy of depreciation charges or at least their trend, current assets and liabilities, and so forth. The bulk of

WM. WRIGLEY JR. CO.

Recent Price: 84 **Dividend Rate: $3**

This is our regular fortnightly investment suggestion to those interested primarily in income, safety of principal and sound investment standing. Each number of the Magazine contains one such selected issue.

For many years the world's largest manufacturer of chewing gum, Wrigley accounts for about 60 per cent of world output. Its product is distributed throughout the United States and in every foreign country.

Earnings have been notably stable, ranging over the past decade from a high of $6.15 per share in 1930 to a low of $3.63 in 1932. Last year's figure was $3.88, as compared with $4.43 the preceding year. Thus far in 1939, however, earnings have shown considerable recovery and for the first half of the year amounted to $2.33 per share against $1.72 for the first six months of 1938.

Annual dividends of $3, paid at the rate of 25 cents monthly, have been maintained for many years and have been regularly supplemented by extras of from 50 cents to $1.25. Last year's payments totaled $3.75.

Financial position at the end of 1938 was strong, with cash holdings alone of $12,820,700, several times in excess of current liabilities of $3,797,018, while total current assets amounted to $42,788,739. Capital structure is simple, consisting only of 1,973,490 shares of no-par common stock, there being no funded debt or preferred stock outstanding.

the owners of the business are invited to accept the dividends and mind their own (other) affairs. It happens that the company has an excellent dividend record and also that this figure shown as the "quarterly report" represents a good increase over a year ago, represents, in fact, full coverage of the dividend rate after recent failure to earn it. But neither of these considerations absolves the management from a duty toward stockholders which is gradually coming to be recognized by our most progressive business leaders.

Congoleum-Nairn sends out a statement of first-half results interesting in several respects. No figures on sales are shown, nor are comparisons with earlier periods given, but both a balance sheet and an income statement appear. The accompanying letter to stockholders points out that the tripling of earnings was in part the result of increased business, although conditions were far from ideal, and in part the result of economies effected in manufacturing operations. The methods of valuing raw materials and finished products in the inventory figure are explained; large new orders and the development of new products are noted. The following statement also appears: "The company's only foreign investments (with the exception of a small branch in Brazil) are in England and Canada and continue to show a satisfactory return on that capital." Particularly during times such as these when world conditions are so unsettled, this item is extremely important to stockholders who must be able to judge the hazards for themselves.

Taking a fairly broad cross-section of the June 30th reports it was found that earnings shown were with only one exception higher than a (*Continued on page* 478)

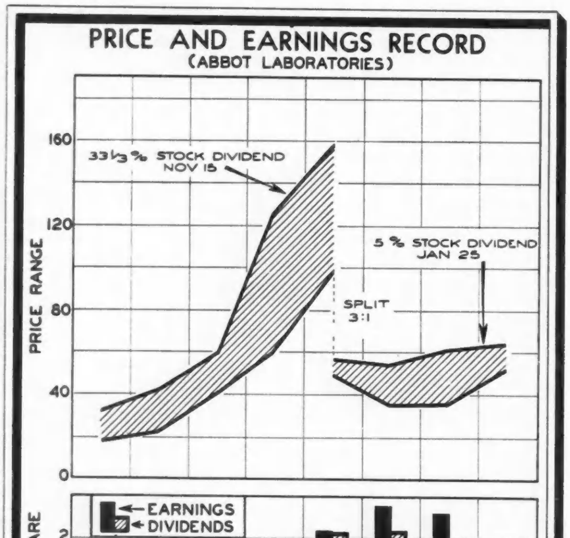
Abbott Laboratories

— Demonstrated Growth
— Resistance to Market Declines
— Good Dividend Outlook

BY STANLEY DEVLIN

ALLANTOIN, Neo-Ergot, Eseriol, Trisodarsen, Klotogen, Camdelate . . . unless you happen to be a doctor, you are probably not quite sure whether the foregoing tongue-twisters are Martian characters out of H. G. Wells or merely a few lesser known Sanskrit idioms. Actually they are some of the more important of about 1,200 pharmaceutical, biological and vitamin products listed in the sales catalogue of Abbott Laboratories, and the fact that their names mean little or nothing to the average layman is no skin whatsoever off that company's nose.

For Abbott is strictly a doctor's concern or what the drug and medicinal trade calls an "ethical" firm. Founded by a doctor more than 50 years ago and managed mostly by doctors since, the company directs its promotion efforts not to the general public but to doctors, and its sales derive almost entirely from recommendations and prescriptions of the latter. All of which has a bearing on some of the unusual production, research and marketing problems that it has encountered and taken in its stride while establishing a record of sales and earnings growth that is almost without parallel among companies listed on the New York Stock Exchange.



Second guessing in the stock market is seldom profitable, but in the case at hand a little hindsight reckoning may prove helpful in sizing up future prospects. Let's take the case of a hypothetical investor who just ten years ago, imbued with the proper amount of 1929 New Era philosophy, decided the time was ripe for purchase of common stocks. The issue he selected was Abbott Laboratories and the price he paid was 52 which just happened to be the high for the year. Total cost of his 100 share commitment was $5,200.

Poor fellow, eh? Save your sympathy. At present market levels around 64, his holdings, now grown to 420 shares by reason of a 33 1/3 per cent stock dividend in 1935, a three-for-one split the following year and a 5 per cent stock dividend last January, are worth nearly $27,000 and the end is not yet in sight. To top it all off, his income from cash dividends since 1929, including two 40-cent quarterly payments and two 10-cent extras paid to date this year, totals $4,364 or 84 per cent of the original cost of his investment and the equivalent of an average annual return over the past decade of 8.4 per cent. Moreover, distributions have been notably stable, smallest payment on the old stock being $2 a share in 1933. Last year, with 4.2 times as many shares outstanding, $1.70 was paid as compared with $2.10 in 1937.

But, of course, all that is water over the dam and the real question now is whether and to what extent earnings and dividends are likely to continue upward. For an answer we had best examine the factors that have contributed to the company's phenomenal growth thus far with an eye to determining whether they are still operative to the same degree as heretofore.

When Dr. Abbott first set up shop in 1888, he was concerned only with compounding a few types of

medicinal granules of essential drugs for use in his own practice. But the word spread and soon other medicos were depending on his laboratory for their supplies. Twelve years later, at the turn of the century, the fledgling enterprise was incorporated as Abbott Alkaloidal Co. In 1915, the present corporate title was assumed and with the coming of the war the company's business was expanded to include synthetic medicinals of which European supplies had been cut off. The period of rapid expansion had begun.

In 1922, Dematological Research Laboratories of Philadelphia was acquired and in 1928 Abbott absorbed the John T. Milliken Co. of St. Louis, the addition of whose business enabled it to offer the medical profession a complete line of pharmaceuticals. Acquisition of Swan-Meyers two years later gave it a stake in the field of medicinal chemicals and biologics and marked the end of its first expansion phase which was characterized mainly by the addition of major new product lines.

Abbott's second expansion phase did not really get under way until 1934 when it organized Abbott Laboratories de Mexico, S.A., a subsidiary serving our "good neighbor" south of the Rio Grande. By 1937, other subsidiaries had been set up in Cuba, Brazil, Argentina, Canada, and England; the company was going after foreign business in earnest.

Gendreau

Abbott Laboratories have developed some of the most valuable proprietary drug formulas in the trade through chemical research.

What of the future? Well, in the first place, prospects for growth along the lines followed prior to the early 'thirties appear to be pretty well limited. Barring some revolutionary development in the field of medicinal chemistry, addition of new products capable of contributing importantly to overall volume is rather unlikely. Of course, Abbott is adding new items to its list all the time (there were 40 in 1937 and 25 last year), but some older ones are also being dropped and nothing new is in sight that is likely to approach in profitability such existing wide-margin, big-selling proprietaries as Haliver Oil or the company's various tonics and vitamin capsules.

Further growth rather seems likely to come from widening markets, especially abroad as per capita consumption is obviously limited and the domestic market has already been fairly well exploited. Abbott's entry into foreign fields is still a fairly new venture and considerable progress is probably yet to be seen, not only in this hemisphere and in England, but on the European continent as well.

Sales expansion from here on may be somewhat less meteoric than heretofore as development of new markets cannot well be undertaken in headlong fashion. Indeed, the company's market surveys—which usually include a census of individual incomes and of hospitals, drug stores, doctors and dentists, and a correlation of these with figures for an area in which the company is already established—are sufficiently thorough to preclude over-rapid invasion of a new territory. Also, it takes time to build up a complete line business. Efforts are concentrated first, of course, on exclusive proprietary items as these are by far and away the most profitable. Next come large volume competitive products which also carry good margins. Finally, there are lines of only mediocre profitability that are carried mainly as a matter of service.

Abbott's production facilities are well located to serve the home market. Main plant is in North Chicago, Illinois, but additional plants are also operated in Chicago, Philadelphia, Indianapolis and St. Louis. Production problems are minimized by virtue of satisfactory employee relations (nearly half of the company's 1,700 workers are stockholders) and by generally stable material costs, an important factor as regards profit margins as stable selling prices are virtually imperative on Abbott's trade-marked items. Transportation expenses are negligible and distribution costs consist mainly of branch overhead and salaries of salesmen who, incidentally, are intensively trained for their jobs.

Getting down to a dollar and cents basis, the company's operating results over the past decade have been such as to justify fully the extraordinary market appreciation of its shares. Though net income declined from $591,014 in 1929 to $298,384 in 1932, the upward trend of earnings since has been both sharp and uninterrupted. Profits were above predepression levels by as early as 1934 and last year reached a new all-time high of $1,648,326, slightly above the preceding year's figure despite the sharp slump in general business activity. That common share earnings did not also reach a new peak in 1938 ($2.43 against $2.50 the year before) was due only to initiation of dividends on *(Please turn to page* **480**)

For Profit and Income

Body by Briggs

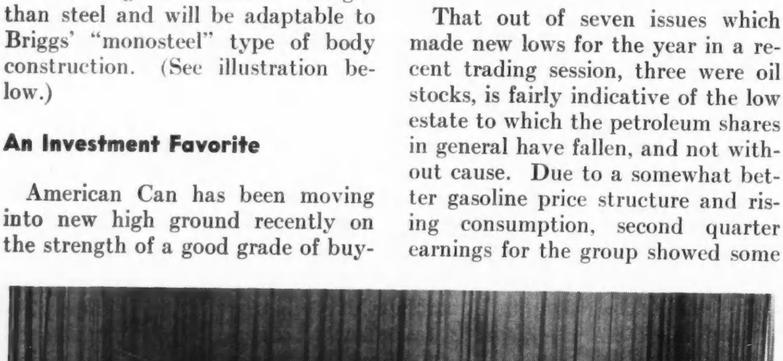
The inroads of plastics at the expense of other materials are everywhere apparent in industry. Latest development is Briggs Mfg.'s new "Steelplast" which is being perfected with an eye toward the not too distant time when plastics will be the principal material in automobile construction. Bodies of the new material, the company reports, will be only one-half the weight of those made of steel and will be cheaper. It is claimed, moreover, that "Steelplast," tough without being brittle, will have greater tensile strength than steel and will be adaptable to Briggs' "monosteel" type of body construction. (See illustration below.)

An Investment Favorite

American Can has been moving into new high ground recently on the strength of a good grade of buying. The company's can sales have been running ahead of last year, but investor interest is directed more to the paper container division which seems to promise more in the way of growth possibilities. Production has reached a figure of 6,000,000 or more units, and higher levels are indicated as further price reductions are effected. Progress in the latter connection is being aided by substitution of American for Norwegian pulp and by increased manufacturing efficiency.

Oils in the Doghouse

That out of seven issues which made new lows for the year in a recent trading session, three were oil stocks, is fairly indicative of the low estate to which the petroleum shares in general have fallen, and not without cause. Due to a somewhat better gasoline price structure and rising consumption, second quarter earnings for the group showed some improvement over first quarter results and a modest extension of these gains seems indicated for the current period. As compared with a year ago, however, profits remain badly depressed and the outlook is not such as to suggest a material turn for the better within the near future. Not a few investment counsel organizations are advising switches into aircraft and rayon issues.



Courtesy Chrysler Corp.

The Plymouth Sedan shown above, now on display at the Chrysler Exhibit at the N. Y. World's Fair, has a top made of the new transparent plastic developed by Briggs Manufacturing Co.

New Day for Utilities?

As the favorite whipping boy of this Administration, the public utility industry probably has most to gain now that the New Deal has been set back by Congress. Hence the recent market action of this group in penetrating its 1938 bull market high. Particularly encouraging, of course, was Congress' action in banning further Government inroads in competition with private enterprise. But power production figures are also a factor in the rise, what with recent weekly output only a fraction of 1% under the all-time high reached in December, 1938, and indications that a new peak will be seen before the summer is out.

Not So Fair

Earlier this year, when pre-Fair hullabaloo was at its height, New York department store shares were buoyant in anticipation of the invading army of eager spenders that was to have descended on the city this summer. But as May gave way to June and June to July, it became apparent that all was not well. Department store sales in this area, at

first only fair, became somewhat less than fair—the trend, in fact, has been less favorable than for the country as a whole. Issues like Gimbel's, Macy, Arnold Constable and, most notably, Best, promptly responded marketwise and in recent weeks have been dragging along at their 1939 lows. But there is probably more to the decline than cancellation of previously over-inflated values due to Fair expectations. For Best has apparently been losing ground to Bonwit Teller, and department stores generally seem to be fighting a long-term losing battle with the mail-order houses.

du Pont Refunding

Recent announcement by du Pont of plans to refund its $109,294,800 of 6% debentures did not come as a surprise to those who read the article on that company published in the June 17 issue of THE MAGAZINE OF WALL STREET. No details of the plan have yet been divulged except that debentures holders will be offered in exchange a lower dividend preferred. There is plenty of time for speculation in the matter, however, for the debentures are callable (at 125) only on January 25 of each year. Concensus of opinion currently is that the new preferred will carry a 4 or 4½% dividend rate.

Western Union Comeback?

There is an old saying in the sport world that "they never come back." Maybe so, but it certainly does not hold in the stock market and business world. Financial history is replete with down-and-outers that have come back stronger than ever. U. S. Rubber, Paramount and Studebaker are examples and, more recently, there have been some indications that Western Union may duplicate their feat though students of the situation are still keeping their fingers crossed. Profits have been badly squeezed in the vise of declining revenues and mounting costs in the past couple of years and the stock tumbled from a 1936 high of 96⅛ to 16⅞ early this year. But results have shown a decided pickup in the past few months and talk of a merger with Postal has also helped in pushing the shares to new high levels for the year recently.

Developments in Companies Recently Discussed

Outstanding earnings report of the fortnight was that of General Mills for the fiscal year ended May 31, 1939. Following a full decade in which common share results held close to $4 annually, the company reported net equal, after preferred dividends, to $7.69 per equity share, as compared with $4.17 the year before. Low and stable wheat prices, substantially increased volume, as well as maintained selling prices for trademarked packaged lines, and unexpectedly good demand and prices for stock feeds were responsible for the unprecedented jump in net according to the management.

Recently declared 50-cent dividend on Bethlehem Steel common is the first distribution to equity shareholders in more than a year and a half. Second quarter earnings were equal to 61 cents per common share against 17 cents the previous quarter; except for two non-recurring items — bond sale expense and loss on sale of capital assets—profit for the quarter would have been $1 per share. Backlog as of June 30 was slightly below that of March 31, but more than twice that of a year ago.

Common share earnings of General Motors last quarter of $1.06, as compared with $1.18 the preceding quarter and 52 cents a year earlier, brought the total for six months to $2.24, up 240 per cent from the 66 cents reported for the first half of 1938. Better than seasonal June sales were responsible for the better-than-expected showing last quarter, and this trend has been maintained since.

Reflecting a small decline in dollar sales, common share net of General Foods for the second quarter amounted to 70 cents, as compared with 74 cents for the three months ended March 31. This represented a substantial gain over a year ago, however, when 54 cents per share was reported. Results for the six months were $1.44, against $1.18 in the like 1938 period.

An exception to the generally favorable run of second quarter reports is that of Allis Chalmers which shows 56 cents per share versus 83 cents last year. Some betterment over the first quarter of the year was recorded, however, when 40 cents was reported. Though unfilled orders are slightly above a year ago, billings have been running considerably under 1938 levels.

On a sales gain of 9.8 per cent, net of J. C. Penney for the first six months of 1939 climbed 26 per cent to $2.33 per share from $1.85 a year earlier. Financial position at the close of the period showed some strengthening over that of June 30, 1938, with cash holdings up nearly 50 per cent against a considerably smaller rise in current liabilities.

Renascence of Marshall Field continues apace with second quarter net equal, after preferred dividends, to 10 cents a common share in contrast with a deficit on the equity stock in the like 1938 period. Due to a 1-cent loss in the preceding three months, results for the half amounted to 9 cents a share. All three of the company's divisions—real estate, manufacturing and retail—have operated profitably so far this year.

Report of Food Machinery for the third quarter of its fiscal year ending September 30, 1939, shows net available for the common equal to 64 cents a share, as compared with 48 cents the year before. Nine months results were $1.40 against $1.27 in 1938. Further betterment is looked for in the current quarter due to a substantial gain in new orders, as well as continued curtailment of expenses.

With several of its newly-introduced products showing encouraging sales gains, Victor Chemical's June quarter net was up to 29 cents a share, as compared with 17 cents for the same months of 1938. Earnings for the first half amounted to 62 cents a share against 39 cents a year ago. Operations of the company's new electric furnaces are understood to be on a satisfactory basis.

Heard Around the Street

Loft plans an aggressive merchandising campaign for Pepsi-Cola and will shortly enlarge capacity of latter's New York plant. * * * With rejection of the spend-lend bill likely to cramp further Government extension in the field of credit, there has been a noticeable pickup in interest in bank stocks. * * * Analysts of the aircraft industry say Lockheed is the one to watch. * * *Phelps Dodge 3½'s at recent levels are only 2½ points above their 1939 low though tangible value may soon attach to the conversion privilege. Fear of call seems to be only explanation.

Stocks Undervalued on Earnings and Prospects

Six Sound Issues in Favored Position

Selected by THE MAGAZINE OF WALL STREET STAFF

Hazel-Atlas Glass

Hazel-Atlas Glass Co. specializes in the manufacture of glass containers, such as tableware, jars, jugs, bottles, fruit jars, jelly glasses, decorated ware and metal closures. The company's products are distributed on a large scale both to industrial and individual users. Industrial customers encompass a wide field, including food products, cosmetics, medicinal preparations, etc. It has been the company's experience over an extended period of time that earnings tend to fluctuate in conformance with general business conditions but, on the whole, they are characterized by an unusual degree of stability. As a consequence, it has been possible for the company to pay dividends to stockholders without interruption for thirty-eight years.

Over the past ten years annual earnings have averaged the equivalent of $5.61 per share on the outstanding capital stock, and ranged from a low of $3.52 a share in 1930 to a high of $7.58 a share in 1935. In 1936, 1937 and 1938 net available for the stock was equivalent to $6.56, $6.67 and $4.97 a share, respectively. Regular dividends have been paid at the rate of $5 per share annually over the past five years and in 1936 and 1937 generous extras augmented regular dividends. Supporting the company's liberal dividend policy is a modest capitalization consisting solely of 434,409 shares of capital stock. The company has no funded debt. Financial position at the end of last year was exceptionally strong, with current assets, including over $5,000,000 cash and U. S. Government securities, totaling $12,309,121, while current liabilities amounted to only $1,045,544.

The decline in earnings last year was largely due to a drop of nearly 2,000,000 units in the company's output and profit margins were pared by a previous 25 per cent increase in wages. Responding, however, to increased sales, earnings in the current year have undergone impressive recovery. Net for the quarter ended July 1st, totaled $847,788, or the equivalent of $1.95 a share for the common stock, as contrasted with $691,444, or $1.59 a share in the same period a year ago. In the twelve months ended July 1st, last, net profit of $2,352,320 was equal to $5.41 per share, comparing with $2,112,091 or $4.86 per share for the corresponding months of 1938. For all of 1939, earnings promise to be substantially in excess of $5, a prospect which suggests the possibility of an extra dividend later in the year. Recently quoted around 110, the shares are selling at their 1939 high. Based, however, on regular dividends alone, the shares invite favorable consideration for income, and further evidence of rising earnings would doubtless be accompanied by higher quotations.

McCrory Stores Corp.

Sales of leading variety chain stores this year have recorded successive monthly gains, a trend which had been conspicuously borne out in the showing of McCrory Stores Corp. In the first six months of the current year the company reported sales of $18,838,144, an increase of 6.2 per cent over the corresponding months a year ago.

McCrory Stores Corp. operates 202 variety stores retailing a diversified line of merchandise priced from 5 cents to $1. Store units are concentrated in the populous middle-Atlantic, mid-western and southeastern areas. Sales gains this year have been in response to the higher level of employment and increased public purchasing power in various sections served by the company's stores. Moreover, earnings this year promise to be significantly enhanced by operating economies in the form of reduced rentals, etc., which the company has been successful in effecting over the past several years. Further strengthening the earnings prospect, from the standpoint of the common stockholders, has been the retirement of $1,000,000 principal amount of the company's debenture 5s of 1951, leaving outstanding only $2,922,500, of the original $4,552,000 which were issued in 1936. In addition, capitalization includes $734,100 of other long term debt, 50,000 shares of $6 convertible preferred stock and 990,253 shares of common stock. Financial position at the end of 1938 was comfortable. Total current assets, including $6,139,722 cash totaled $10,986,244, while current liabilities were less than $3,000,000. Cash items alone were more than double all current liabilities.

For all of 1938 the company reported earnings of $1,765,063, equal after dividends on the preferred stock to $1.48 a share for the common stock, comparing with

$1.89 per share earned in 1937. That the showing in 1938 will be substantially improved upon in the current year is indicated by the most recent report, covering the twelve-months period ended June 30th last, in which the company reported net income of $1,957,662, comparing with $1,732,412 in the corresponding period a year ago. After allowing for dividends on the 6 per cent preferred stock, net available for the common stock in the most recent period was equal to $1.67 per share, compared with $1.44 per share in 1938. Last year the company paid dividends of 75 cents per share. With the current prospect favoring increased sales and earnings, there is an excellent chance that common stockholders will be more generously treated prior to the year-end. Recently quoted around 14, the shares would appear to be reasonably appraised in relation to indicated earnings and, among low priced issues, worthy of speculative consideration.

Bendix Aviation Corp.

The current year has brought a marked reversal in the operations of Bendix Aviation Corp. In the first six months the company reported net income of $2,168,210, or the equivalent of $1.03 a share for the outstanding common stock. The most recent showing offers noteworthy contrast with that for the corresponding period a year ago when a loss of nearly $500,000 was reported. Dividends which had been omitted since December, 1937, were renewed in June with a 25-cent payment, which was subsequently followed by another similar payment scheduled for September 1st. In a large measure, of course, the company's improved showing this year reflects the substantially increased production of automobiles. Also contributing to the rise in profits were large sales to the booming aircraft industry.

Activities of Bendix Aviation embrace two major divisions—the manufacture of automobile parts and the manufacture of airplane parts and equipment. The latter, in recent years, has become an increasingly important factor in the company's operations. In the automobile industry the company is credited with making the major share of starting drives and a large proportion of brakes, carburetors and automatic clutch controls. One or more of these products is supplied to such leading manufacturers as Ford, General Motors, Chrysler, Studebaker, Nash and others. Airplane products include magnetos, brakes, carburetors, electrical equipment, signalling, recording and navigation instruments and radio devices.

The company has erected a $2,000,000 aircraft parts plant close to the major airport serving New York City. In connection with this new plant, the company issued $5,000,000 2 per cent and 3½ per cent debentures, of which $2,000,000 were retired during 1938 and recently the company announced the redemption of the remaining $3,000,000. Upon redemption of the debentures, capitalization will consist solely of 2,097,663 shares of capital stock.

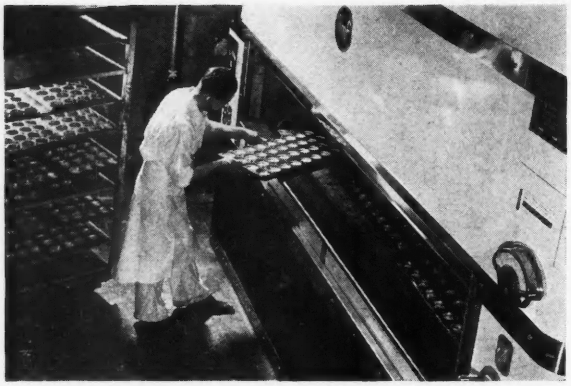
Reported earnings of Bendix in the first quarter of this year amounted to $1,023,996; in the second quarter to $1,144,214. In both instances, results were the best for any similar three-months period in the company's history. Applied to the outstanding capital stock, first half earnings this year were equivalent to $1.03 per share. While it is possible that third quarter results will reflect a temporary decline of shipments to the automobile industry, the early introduction of 1940 models this year, coupled with the sustained level of activity in the aircraft industry should do much to sustain profits throughout the balance of the year. In fact, the company appears to be in an excellent position to show record-breaking earnings this year, surpassing the $3,163,921 figure shown in 1935. Net in the latter year was equal to $1.51 per share.

Recent levels for the shares around 25 compare with a 1939 high of 29¾ and a low of 16⅜. On the strength of the possibility that the company this year may show at least $2 per share, current quotations would appear to constitute attractive speculative value.

May Department Stores

Although May Department Stores has issued no official statement covering earnings this year, it is a fairly safe assumption that current profits are running well ahead of last year. The company operates six large department stores located in Akron, Baltimore, Cleveland, Denver, Los Angeles and St. Louis. All these units are typical department stores, specializing in a large variety of merchandise, apparel, household furnishings, etc. In most of the cities where the company's stores are located industrial activities predominate, with the result that sales and earnings are likely to be somewhat sensitive to the rise and fall in the tide of general business. Actually, however, the company's record of earnings over an extended period of time compares quite favorably with that of other department store units. Although earnings declined in the depression years of the early 30's, at no time was a loss shown and in subsequent years earnings have displayed strong recuperative powers.

The best showing in recent years was made in the fiscal period ended January 31, 1937, when net of $5,070,458 was equivalent to $4.12 a share for the common stock. Profits declined moderately in the following year and net of $4,917,771 was equivalent to $3.99 a share. Last year, chiefly owing to the sharp decline in sales during the first six months, net dropped to $3,809,877, or the equivalent of $3.09 per share on the outstanding capital



stock. This year, with department store sales throughout the country actively sustained at levels well ahead of 1938 and with the advantage of closer control of operating costs, May Department Stores should experience no difficulty in improving appreciably upon its 1938 showing. As of January 31, last, current assets, including $8,500,000 in cash items, totaled $32,654,818 and showed a ratio to current liabilities of 6 to 1. Capitalization consists solely of 1,230,396 shares of capital stock. Mortgage indebtedness at the end of last year amounted to $5,135,600. Stockholders of May Department Stores have received uninterrupted dividends for more than ten years. Last year dividends aggregated $3 a share. With the assurance of a strong financial condition and a larger volume of business this year, dividends at least equal to the 1938 rate appear to be a reasonable expectation. Quoted around 52, the shares are obtainable on a liberal yield basis and might be expected to show a profitable percentage of price appreciation in any period of generally rising market quotations.

Pillsbury Flour Mills

Pillsbury Flour Mills is one of the world's largest flour milling companies, marketing an extensive line of family and patented flours which are distributed through a comprehensive chain of branch warehouses and sales offices. The company's products are retailed by practically all grocery chains and independent grocers throughout the country. It has long been the policy of the company to hedge wheat purchases, with the result that inventory profits or losses have not figured in earnings.

Pillsbury's sales and earnings over a long period of time have been featured by marked stability. The fiscal year ended May 31, 1938, however, was an outstanding exception. In that period, for the first time in its history, the company reported a loss, attributable largely to the demoralized flour price situation and the severely depressed conditions which prevailed particularly during the first quarter of the 1938 fiscal period. Prior to 1938, average consolidated net earnings for the previous ten years were $1,522,699, equal to $2.77 per share for the outstanding stock.

For the fiscal period ended May 31, last, the company reported net sales of $48,928,238, against $63,441,128 in the preceding twelve months. This decrease in dollar sales as compared with the previous fiscal year was due largely to lower market prices for commodities, the aggregate unit sales being substantially the same in both years. Well maintained unit sales volume and improved profit margins more than offset the decline in dollar sales and net profits totaled $1,692,317, or the equivalent of $3.08 per share of capital stock. Profit margins during the most recent fiscal period were substantially restored by the lower prices of wheat. Most of the company's products are sold at a fixed price and profit margins are largely determined by wheat prices.

The company's balance sheet as of May 31, last, revealed a comfortable financial position, with current assets amounting to $16,067,171 and current liabilities of $2,127,295. Cash of $2,443,190 was more than sufficient to meet all current liabilities. Ahead of the 549,225 shares of capital stock there is a funded debt of $5,600,000, represented by 3¾ per cent bonds due 1953.

Well fortified financially and with earnings running at a rate almost double the present $1.60 dividend, considerable latitude is permitted directors and continued good earnings might well result in an increase in the present rate or the payment of an extra. Based on the present poor statistical position of wheat and the scant likelihood of any substantial recovery in wheat prices, the company would appear assured of satisfactory profit margins for some months to come. Recently quoted around 30 to yield better than 5 per cent, the shares provide a dependable income-producing medium offering gradual price appreciation possibilities over the longer term.

Household Finance Corp.

Household Finance Corp. engages in the business of making personal loans to individuals in the sums of $300 or less in states which have enacted the Uniform Small Loan Law or similar legislation. The company operates 235 offices, administering directly 214 of these. The company's loan contract provides that payment be made in equal monthly installments, usually twenty months.

In 1937, Household Finance did the largest volume of business in its history and earnings likewise were at record levels. Total loans in that year were 715,002, for an aggregate amount of $120,973,721. Net profit in 1937 amounted to $6,382,155 and was equivalent, after preferred dividends, to $7.65 per share on the outstanding common stock. Last year, notwithstanding the fact that the number of loans made dropped to 652,997, the average dollar volume of notes outstanding during the year rose to $59,136,000 from $56,784,000 in 1937. Gross income last year totaled $17,904,000, an increase of about $400,000 over the previous year. Last year, however, the company transferred $1,604,000 to reserves, about twice the amount transferred in 1937. As a result, net income in 1938 declined to $6,161,000 and was equal to $7.34 per share for the common stock. At the end of last year the company had outstanding $55,060,000 in customers' notes and reserves for losses totaled $4,113,000, or nearly 7 per cent of notes outstanding.

Thus far this year the company's business has been running at a level which would indicate earnings slightly in excess of last year. The introduction of new lending policies and reduced interest rates have stimulated new business. In the first half of (*Please turn to page 478*)

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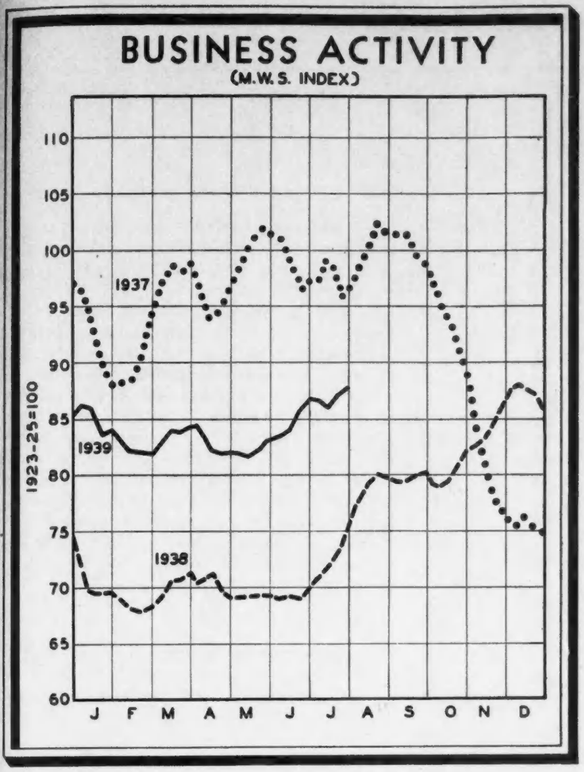

CONCLUSIONS

INDUSTRY—Production and trade expand sharply, duplicating the 1938 high.

TRADE—Sales increase all along the line, from producer to retailer.

COMMODITIES—Spread widens between retail and wholesale prices.

MONEY AND CREDIT—Commercial borrowings continue to gain.

The Business Analyst

Under the leadership of Check Payments, Steel, Lumber and Electric Power output, the Nation's per capita volume of **Business Activity** has recovered sharply during the past fortnight to around 88% of the 1923-5 average, thereby virtually duplicating the December high, which was the best level reached thus far on the current recovery movement. Average for the month of July is estimated at 87, compared with 85 in June and 73 for July last year. For seven months the average has been 84, against 70 in the like period of 1938, an increase of 20%. Present prospects are that the current quarter, as a whole, will top last year's third quarter by approximately 19%, with corporate earnings, by and large, comparing about as favorably with last year as during the second quarter, for which an increase of nearly 90% has been reported. Earnings for the half-year were a little more than twice as large as for the like period of 1938. Unless private spending expands to fill the vacuum which will otherwise result from tapering off of Government pump-priming activities, business volume in the fourth quarter will do well to match that of last year; though fourth quarter profits should show moderate improvement on an annual comparison basis, owing to better control over expenses.

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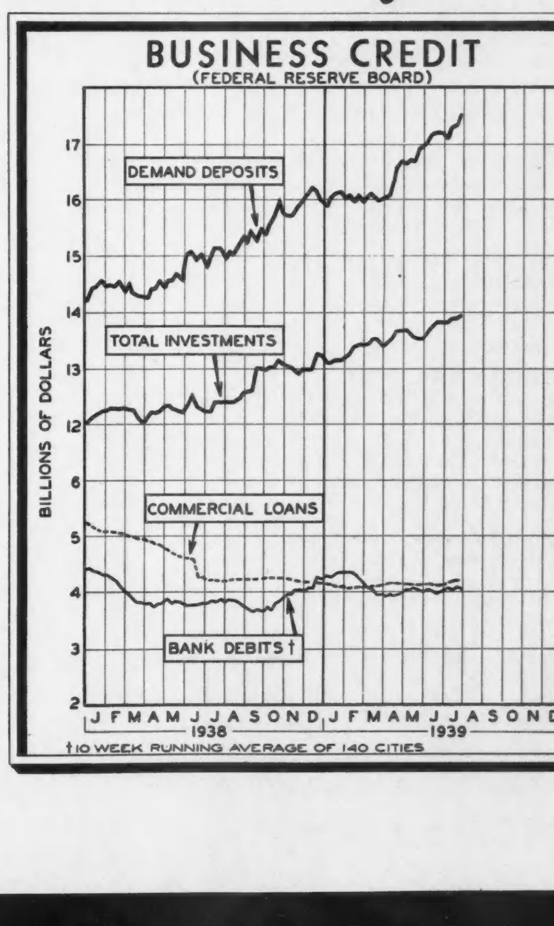


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	June	97	92	77
INDEX OF PRODUCTION AND TRADE (b)	June	83	82	72
Production	June	79	77	67
Durable Goods	June	62	61	42
Non-durable Goods	June	90	87	82
Primary Distribution	June	79	77	70
Distribution to Consumers	June	94	94	84
Miscellaneous Services	June	81	81	75
WHOLESALE PRICES (h)	June	75.6	76.2	78.3
INVENTORIES (n. i. c. d.)				
Raw Materials	May	95.9(pl)	96.6	115.9
Semi-Finished Goods	May	114.3(pl)	113.7	122.6
Finished Goods	May	110.0(pl)	110.9	115.5
COST OF LIVING				
All items	June	84.7	84.8	86.7
Food	June	77.9	78.1	81.9
Housing	June	86.0	86.2	86.7
Clothing	June	72.0	71.2	73.9
Fuel and Light	June	83.4	84.0	83.7
Sundries	June	96.6	96.6	97.5
Purchasing value of dollar	June	118.1	117.9	115.3
NATIONAL INCOME (cm)†	June	$5,718	$5,209	$5,388
CASH FARM INCOME†				
Farm Marketing	June	$501	$508	$514
Including Gov't Payments	June	552	589	559
Total, First 6 Months	1939	3,381	......	3,341
Prices Received by Farmers (ee)	June	89	90	92
Prices Paid by Farmers (ee)	June	121	120	124
Ratio: Prices Received to Prices Paid (ee)	June	74	75	74
FACTORY EMPLOYMENT (f)				
Durable Goods	June	84.1	83.3	72.4
Non-durable goods	June	96.9	96.7	90.3
FACTORY PAYROLLS (f) (not adjusted)	June	86.2	84.4	70.8
RETAIL TRADE				
Department Store Sales (f)	June	87	85	82
Chain Store Sales (g)	June	111	110	106.3
Variety Store Sales (g)	June	118	115	110.8
Rural Retail Sales (j)	June	131.7	131.2	116.6
Retail Prices (s) as of	July 1	89.1	89.1	89.2
FOREIGN TRADE				
Merchandise Exports†	June	$236.0	$249.3	$232.7
Cumulative year's total† to	June 30	1,415.4	......	1,094.6
Merchandise Imports†	June	179.0	202.5	145.9
Cumulative year's total† to	June 30	1,094.6	......	961.0
RAILROAD EARNINGS				
Total Operating Revenues★	1st 6 mos.	$1,804,127	......	$1,636,067
Total Operating Expenditures★	1st 6 mos.	$1,400,744	......	1,331,594
Taxes★	1st 6 mos.	172,470	......	168,869
Net Rwy. Operating Income★	1st 6 mos.	165,263	......	71,186
Operating Ratio %	1st 6 mos.	77.64	......	81.39
Rate of Return %	1st 6 mos.	1.57	......	0.67
BUILDING Contract Awards (k)†	June	$288.3	$308.5	$251.0
F. H. A. Mortgages				
Selected for Appraisal†	June	101.5	109.4	97.2
Accepted for Insurance†	....	82.3	73.7	74.2
Premium Paying†	June	......	49.4	......
Building Permits (c)				
214 Cities†	June	99.3	95.6	65.2
New York City†	June	21.6	15.9	22.4
Total, U. S.†	June	120.9	111.5	87.6
Engineering Contracts (En)†	July	$181.5	$262.4	$223.3

PRESENT POSITION AND OUTLOOK

(Continued from page 465)

National Income paid out during June totaled $5,718,000,000, an increase of 6.5% over the like period of 1938, compared with a six-months' gain of only 3%. Dividends declared during June were 6% more liberal than for the like month a year earlier. **Factory employment** in June was 10% greater than last year, with **durable goods** showing an increase of 16% and **nondurable goods** gaining 7%. **Factory payrolls** were 22% larger than a year earlier, while factory weekly real wages increased 14%, owing to a 2% decline in the **cost of living. Farm income,** including Government subsidies, for the month of June was 1% lower than last year, against a six-months' gain of 1%, but **rural sales** increased 13%, due to lower production costs resulting from the growth in mechanization of farms.

* * *

Raw material prices have recovered a little during the past fortnight and now average about 1% above last year; but **wholesale prices** are down 4.5%, while **retail prices** are off only 0.1%.

* * *

Department store sales for week ended July 22 were 8% above last year, compared with a four-week's gain of only 4%. Inventories are 2% lower than last year. June **wholesale trade** was 8% better than last year, against a six-months' sales gain of only 5.5% with inventories off 1%. Manufacturers' sales in June were 17.5% ahead of last year. June **exports** plus **imports** were 10% larger than for the like period last year, compared with a six-months' recession of 1.7%. Excess exports for six month came to $321,542,000, against $631,000,000 last year.

* * *

With **carloadings** running currently about 13% above last year, **railroad** n. o. i. for June gained about 56% over the like period of 1938, against a six-months' increase of 130%. Net loss after charges is estimated at $93,000,000, vs. $181,000,000 loss for first half of 1938. Class I Carriers should show net profit for each month of the second half, despite more liberal maintenance expenditures.

* * *

Building permits granted in June were 42% above last year, compared with a six-months' gain of only 30%. June increase in **residential permits,** however, was only 44%, against 47% for six months. **Construction contracts** awarded during June in 37 States East of the Rockies were 15% ahead of last year. For the first time since the spring of 1938 FHA mortgage applications have fallen below the like period a year earlier. This may be due partly to expectations of lower interest rates, which have just been lowered by ½% to meet rates obtainable from private lenders. A large New York insurance company has demonstrated that low cost housing construction on a large scale is practicable without Government aid.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	June	3,130	2,918	1,633
Pig Iron Production in tons★	June	2,119	1,718	1,061
Shipments, U. S. Steel in tons★	June	733	723	478
AUTOMOBILES				
Production				
Factory Sales	June	309,720	297,508	174,670
Total 1st 6 Months	1939	1,953,533	......	1,203,343
Retail Sales				
Passenger Cars, U. S. (p)	1st 6 mos.	1,409,102	......	974,023
Trucks, U. S. (p)	1st 6 mos.	248,826	......	196,067
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	June	321.1	335.9	267.1
Shipments, U. S. & Canada★ (tons)	June	316.9	359.1	274.7
Mill Stocks, U. S. & Canada★ (tons)	June 30	213.6	209.4	211.2
LIQUOR (Whisky)				
Production, Gals.★	June	5,782.2	7,971.0	4,721.4
Withdrawn, Gals.★	June	4,889.8	4,728.2	5,174.7
Stocks, Gals.★	June 30	478,875	......	471,160
GENERAL				
Machine Tool Orders (n)	June	211.6	219.8	70.2
Railway Equipment Orders (Ry)				
Locomotive	June	8	51	31
Freight Cars	June	1,324	2,051	1,090
Passenger Cars	June	14	None	None
Cigarette Production†	June	16,595	15,445	14,717
Bituminous Coal Production★ (tons)	June	28,506(pl)	17,880	22,507
Boot and Shoe Production Prs.★	June	31,640	32,222	26,897
Paperboard, new orders (st)	June	383,371	372,893	298,845
Portland Cement Shipments★	June	12,715	12,748	10,943

PRESENT POSITION AND OUTLOOK

With most **automobile** factories now either closed for retooling or already engaged in assembling their 1940 models, production is expected to touch its summer low within a week or two; though there will be a second dip later during the General Motors' change-over, which has been delayed by the tool makers' strike. An increase of 48% over last year in retail sales of cars for the first 20 days of July augurs well for the fall season.

* * *

Comparison of **whisky** statistics in peak years of the pre-prohibition and post-prohibition eras shows production of 100,600,000 tax gallons in 1911, compared with 245,500,000 gallons in 1936; tax-paid withdrawals of 83,600,000 gallons in 1917, against 72,500,000 in 1936; imports of 1,724,000 gallons in 1916, vs. 14, 364,-000 in 1937; and monthly average stocks of 278,000,000 gallons in 1914, compared with 475,000,000 during the first half of 1939. Stocks over four years old, however, were four times as large in 1914 as in 1938.

* * *

Cigarette withdrawals in June were nearly 13% above the like month of 1938, and the largest for any month in the industry's history. Advance buying to beat the New York State tax, which became effective July 1st, appears to have accounted for only a small part of the rise.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	July 29	88.0(pl)	87.2	75.6
ELECTRIC POWER OUTPUT				
K.W.H.†	July 29	2,342	2,295	2,094
TRANSPORTATION				
Carloadings, total	July 29	659,764	656,341	588,697
Grain	July 29	40,822	46,432	50,706
Coal	July 29	117,223	111,437	99,606
Forest Products	July 29	32,451	32,521	27,870
Manufacturing & Miscellaneous	July 29	255,273	253,403	224,089
L. C. L. Mdse	July 29	152,324	152,109	147,928
STEEL PRICES				
Pig Iron $ per ton (m)	Aug 1	20.61	20.61	19.61
Scrap $ per ton (m)	Aug. 1	15.17	15.13	14.33
Finished c per lb. (m)	Aug. 1	2.236	2.236	2.300
STEEL OPERATIONS				
% of Capacity week ended (m)	Aug. 5	60.0	60.0	38
CAPITAL GOODS ACTIVITY				
(m) week ended	July 29	67.1	66.2	50.2
PETROLEUM				
Average Daily Production bbls.★	July 29	3,539	3,584	3,316
Crude Runs to Stills Avge. bbls.★	July 29	3,460	3,395	3,221
Total Gasoline Stocks bbls.★	July 29	77,887	77,960	76,977
Gas Fuel Oil Stocks, bbls.★	July 29	109,507	106,517	116,758
Crude—Mid-Cont. $ per bbl	Aug. 5	1.02	1.02	1.22
Crude—Pennsylvania $ per bbl	Aug. 5	1.48	1.48	1.40
Gasoline—Refinery $ per gal	Aug. 5	.06	.06	.06¾

PRESENT POSITION AND OUTLOOK

Electric power output during the past fortnight has expanded at a much greater than normal seasonal rate, and the margin of increase over last year has widened to 12%. Decision of the Lower Colorado River Authority to sell a substantial block of its available generating capacity to a subsidiary of the Electric Bond & Share Corp., and the refusal of Congress to authorize further funds for competition with private plants tend to strengthen the growing conviction that the Administration's war against the utilities is about ended.

* * *

While the **steel** industry failed to earn accrued dividends on preferred stock during the second quarter, prices are now showing considerable resistance to pressure and, with the **operating rate** above 60% of capacity, considerable improvement should be shown for the current quarter. Recent strength in **scrap prices** is in part due to heavy purchases by Japan in anticipation of termination of our trade agreement with her on January first, 1939.

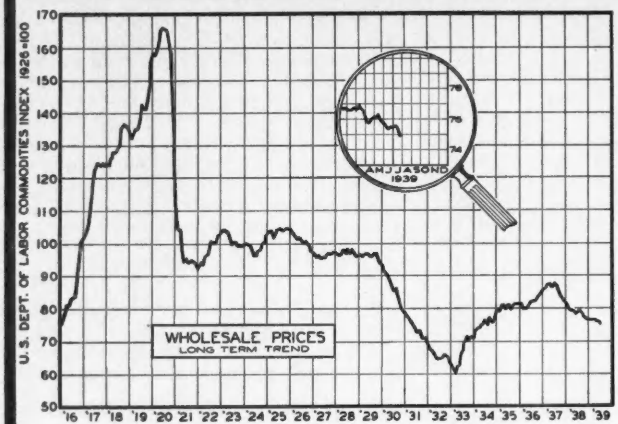
* * *

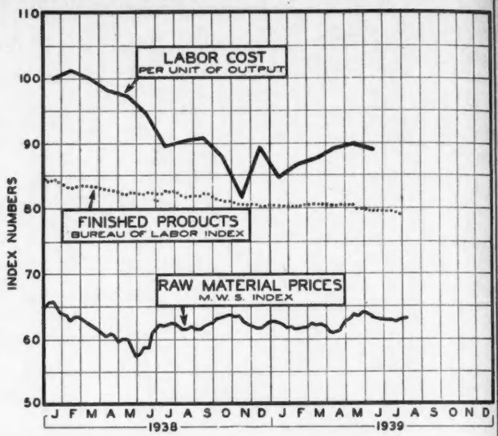
The first nine **oil** companies to report for the second quarter show an increase of 70% in combined earnings, compared with the first quarter; but a decrease of 14% from the second quarter of 1938. **Gasoline** stocks are still excessive.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (En)—Engineering News Record. (Ry)—Railway Age. (n. i. c.b.)—Nat. Ind. Conf. Bd. 1936—100. (st)—Short tons.

Trend of Commodities

After rallying briskly in the first week of the past fortnight, prices of agricultural commodities again turned reactionary near the close of the past week. With the rally, particularly in wheat and corn, resulting largely from technical factors rather than any change in the impaired statistical position of these commodities, the market was vulnerable and when Congress rejected the appropriation of $119,000,000 for the Commodity Credit Corporation prices broke sharply. There is a feeling, however, among grain traders that funds for loans will be provided somehow. In the industrial list, developments were featured by higher lead and copper prices, while most of the other leading industrial raw materials showed a firm undertone under the influence of an improving balance between supply and demand. Buyers, however, see no prospect of substantial price increases for raw materials in the near future.





Changes in Major Commodity Price Groups for the fortnight Ended July 29, 1939

Farm Products	61.4	down 1.9	Metals	93.4	up 0.1
Foods	66.7	down 1.0	Building Material	69.4	down 0.4
Hides and Leather	93.7	up 0.9	Chemical	74.6	down 0.1
Textiles	67.5	up 0.4	Housefurnishings	87.0	no change
Fuel and Lighting	73.3	down 0.1	Miscellaneous	72.9	down 0.4

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
October	Aug. 5	8.95	8.95	8.42
December	Aug. 5	8.77	8.81	8.50
Spot	Aug. 5	9.55	9.65	8.52
(In bales 000's)				
Visible Supply, World	Aug. 4	6,587	6,742	7,721
Takings, World, wk. end	Aug. 4	392	189	333
Total Takings, season Aug. 1 to	Aug. 4	195	......	264
Consumption, U. S.	June	578	605	443
Exports, wk. end	Aug. 4	28	21	46
Total Exports, season Aug. 1 to	Aug. 4	16	......	29
Government Crop Est. (final)	1938	11,943(ac)	......	18,946(ac)
Active Spindles (000's)	June	21,788	21,975	21,142
WHEAT				
Price cents per bu. Chi. closing				
September	Aug. 5	64	65¾	64¾
December	Aug. 5	64⅝	66⅜	66½
Exports bu. (000's) since July 1 to	July 29	8,367	6,483	13,589
Exports bu. (000's) wk. end	July 29	1,884	1,635	3,036
Visible Supply bu. (000's) as of	July 29	140,059	129,515	91,439
Gov't Crop Est. bu. (winter) (000's)	July	1716,655	......	930,801(ac)
CORN				
Price cents per bu. Chi. closing				
September	Aug. 5	42⅜	42¼	54
December	Aug. 5	42⅜	42¾	51¾
Exports bu. (000's) since July 1 to	July 29	138	84	15,500
Visible Supply bu. (000's) as of	July 29	22,562	24,262	16,660
Gov't Crop Est. bu. (000's) (final)	July 1	2,570,795	......	2,408,958(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Announcement of the terms of export subsidy apparently awakened foreign buying interest and orders which had been deferred pending definite news on the subsidy program came into the market in substantial volume. Lack of moisture has also been a factor in bolstering prices. Failure to provide the Commodity Credit Corp., with funds would also be harmful to cotton. Private estimates place the current crop at 11,575,000 bales, which would compare with the actual crop of 11,943,000 bales last year.

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Wheat. The sharp rally induced by short covering gave way to declines last week, when some doubts were cast upon the 1939-40 loan program. Fundamentally, however, wheat is, and is likely to continue, under the pressure of huge world supplies. World prices have in fact declined to a point where it has become necessary to modify the 1939-40 export subsidy program. Export subsidies at present prices might cost as much as 50 cents a bushel. Last season 118,000,000 bushels were exported at an average cost of 27 cents a bushel, or $32,000,000.

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Corn. Prices fell under the influence of Secretary Wallace's announcement that corn might sell at 25 cents, without the loan program. Prospects are that the Government will take over perhaps as much as 100,000,000 bushels of corn on which farmers will default loans.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Aug. 5	10.50	10.375	10.125
Export c. i. f.	Aug. 5	10.65	10.25	10.35
Refined Prod., Domestic (tons)	June	61,719	68,536	32,465
Refined Del., Domestic (tons)	June	53,573	51,225	32,863
Refined Stocks, Domestic (tons)	June 30	335,012	337,155	358,971
Refined Prod., World (tons)	June	173,205	170,472	142,532
Refined Del., World (tons)	June 30	180,433	172,296	145,393
Refined Stocks, World (tons)	June 30	513,670	520,898	551,495
TIN				
Price cents per lb., N. Y.	Aug. 5	48.80	48.45	34.50
Tin Plate, price $ per box	Aug. 5	5.00	5.00	5.35
World Visible Supply† as of	June 30	30,055	30,866	29,061
U. S. Deliveries†	June	4,925	5,905	4,205
U. S. Visible Supply† as of	June 30	4,388	3,387	4,247
LEAD				
Price cents per lb., N. Y.	Aug. 5	5.05	4.85	4.75
U. S. Production (tons)	June	38,986	46,006	35,028
U. S. Shipments (tons)	June	38,898	40,124	35,048
Stocks (tons) U. S., as of	June 30	129,366	129,270	164,554
ZINC				
Price cents per lb., St. Louis	Aug. 5	4.60	4.60	5.14
U. S. Production (tons)	June	39,450	42,302	30,799
U. S. Shipments (tons)	June	37,284	39,607	29,248
Stocks (tons) U. S., as of	June 30	135,241	133,075	149,671
SILK				
Price $ per lb. Japan xx crack	Aug. 5	2.62	2.70½	1.74
Mill Dels. U. S. (bales) season to	June 30	414,481	388,225	380,480
Visible Stocks, N. Y. (bales) as of	June 30	19,209	24,201	44,457
RAYON (Yarn)				
Price cents per lb.	Aug. 5	51.0	51.0	49.0
Consumption	June	32.9	25.9	18.1
Stocks as of (a)	June 30	32.8	41.5	67.0
WOOL				
Price cents per lb. tops, N. Y.	Aug. 5	87½	87½	81
HIDES				
Price cents per lb. No. 1 Packer	Aug. 5	12.0	12.0	11.50
Visible Stocks (000's (b) as of	May 31	12,903	12,813	13,804
No. of Mos. Supply as of	May 31	6.5	6.2	8.0
RUBBER				
Price cents per lb.	Aug. 5	16.70	16.57	16.06
Imports, U. S.†	June	35,947	47,535	26,011
Consumption U. S.†	June	47,259	44,377	32,540
Stocks U. S. as of	June 30	181,794	193,602	294,796
Tire Production (000's)	June	4,837	4,418	3,036
Tire Shipments (000's)	June	5,733	4,753	3,929
Tire Inventory (000's) as of	June	8,804	9,919	8,470
COCOA				
Price cents per lb. Sept.	Aug. 4	4.11	4.21	5.31
Arrivals (thousand bags)	June	198	416	129
Warehouse Stocks (thousand lbs.)	Aug. 4	1,378	1,383	676
COFFEE				
Price cents per lb. (c)	Aug. 5	7.50	7.25	8.00
Imports, season to	June 30	13,878	12,624	12,635
U.S. Visible Supply (bags 000's)	July 1	1,408	1,451	1,418
SUGAR				
Price cents per lb.				
Duty free delivered	Aug. 5	2.90	2.90	2.75
Refined (Immediate Shipments)	Aug. 5	4.30	4.30	4.30
U. S. Deliveries (000's)*	1st 6 mos.	2,937	......	2,901
U. S. Stocks (000's)* as of (RR)	June 30	1,114	......	1,025

PRESENT POSITION AND OUTLOOK

Copper. Copper prices were advanced another ⅛ cent to 10.50 cents and for the first time since last May all domestic electrolytic selling prices, including the open market, were uniform. The feeling is that the outlook for copper has brightened considerably by recent events in Washington, particularly the more enlightened attitude toward the utilities. The utilities, one of the largest consumers, of copper have been only restricted buyers for some time and anything which would encourage them to resume expansion activities would be bullish on copper.

* * *

Tin. Prices, despite only brief surges of buying interest, have held firm. Foreign buying is active but prices have been held back, presumably by liquidation on the part of the Buffer Pool.

* * *

Lead. Strength in the London market under the influence of large foreign purchases was followed by an advance of $2 a ton in domestic prices. The price is now within $1 of the high level reached last year. Domestic consumers were active buyers and demand has been well diversified.

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Zinc. Galvanizing operations last week were at 59 per cent of capacity and sales were estimated at between 4,000 and 5,000 tons. Demand is quiet and prices are firm at 4.60 cents.

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Silk. Mill takings in July were the smallest since December, 1937 and stocks of natural silk fiber in New York gained 6,500 bales. Significantly, and doubtless due to high prices, consumption of silk this year has been the lightest in some time. Prices eased moderately.

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Rayon. From all indications rayon yarn producers and weavers are assured of a high rate of operations throughout the balance of the summer. Production is running better than 35 per cent ahead of last year.

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Wool. The sharp gain in the production of men's clothing is a favorable augury in the wool prospect. Output of suits and overcoats is expected to reach the 1937 volume and may even compare favorably with the active 1936 year.

* * *

Hides. Consumption of leather may establish a new all-time record this year. Total consumption in the first six months of this year of 11,498,000 hides was well ahead of the record 1936 year. Inventories, however, have undergone no considerable expansion. Prices firm.

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Rubber. Confronted with an unexpectedly sharp decline in world rubber stocks in recent months, the International Rubber Regulation Committee advanced export quotas to 60 per cent of basic, effective at once. Previously the third quarter quota had been set at 55 per cent. Domestic tire shipments in June were the largest for any month since June, 1933. Inventories in the hands of producers were lower by more than 1,000,000 units at the end of the month. Replacement shipments were chiefly responsible for the substantial gain in June shipments.

* * *

Sugar. Total deliveries in the first six months of this year amounted to 2,936,914 short tons, compared with 2,900,562 tons in the same period last year. Stocks on hand increased 11,755 short tons to 1,113,722.

(a)—Million Pounds. (ac)—Actual. (pl)—Preliminary. (c)—Santos No. 4 N. Y. †—Long tons. *—Short tons. (RR)—Raw and refined.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Aug. 5	1¼%	1¼%	1¼%
Prime Commercial Paper	Aug. 5	½%	½%	¾%
Call Money	Aug. 5	1%	1%	1%
Re-discount Rate, N. Y.	Aug. 5	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	July 22	2,566	2,557	2,316
Cumulative year's total to	July 22	69,216	......	65,383
Bank Clearings, N. Y.	July 22	2,871	2,922	3,152
Cumulative year's total to	July 22	90,643	......	105,081
F. R. Member Banks				
Loans and Investments	July 26	22,135	22,025	20,556
Commercial, Agri., Ind. Loans	July 26	3,899	3,893	3.869
Brokers Loans	July 26	681	615	595
Invest. in U. S. Govts	July 26	8,514	8,505	7,659
Invest. in Govt. Gtd. Securities	July 26	2,168	2,159	1,640
Other Securities	July 26	3,259	3,245	3,096
Demand Deposits	July 26	17,601	17,387	15,160
Time Deposits	July 26	5,237	5,223	5,200
New York City Member Banks				
Total Loans and Invest	Aug. 2	8,309	8,182	7,488
Comm'l Ind. and Agr. Loans	Aug. 2	1,438	1.414	1,443
Brokers Loans	Aug. 2	501	523	474
Invest. U. S. Govts	Aug. 2	3,201	3,161	2,778
Invest. in Gov't Gtd. Securities	Aug. 2	1,127	1,106	781
Other Securities	Aug. 2	1,175	1,118	1,052
Demand Deposits	Aug. 2	7,715	7,804	6,188
Time Deposits	Aug. 2	646	643	635
Federal Reserve Banks				
Member Bank Reserve Balance	Aug. 2	10,413	10,436	8,074
Money in Circulation	Aug. 2	7,054	7,002	6,455
Gold Stock	Aug. 2	16,248	16,227	13,025
Treasury Currency	Aug. 2	2,895	2,893	2,721
Treasury Cash	Aug. 2	2,370	2,506	2,357
Excess Reserves	Aug. 2	4,460	4,490	2,920
		Latest Month	Last Month	
NEW FINANCING (millions of $)				
Corporate	July	226.0	282.0	185.8
New Capital	July	49.5	30.2	130.3
Refunding	July	176.5	251.8	55.5

COMMENT

Loans to commerce, industry and agriculture by **New York City Member Banks** rose $24,000,000 in the week ended August 2, the sharpest gain in almost two years. Commercial borrowing have risen in eight out of the ten past weeks and are now $74,000,000 higher than on May 31. Total earnings assets of the New York group are larger than at any time in the past two years.

* * *

The Federal Reserve bank continues to adhere to the policy inaugurated six weeks ago of permitting maturing Treasury bill to run off without replacing them. The system's portfolio of government securities has declined $110,596,000, or 23 per cent, to a total of $366,220,000. Since the Open Market Account began to let part of its bill holdings mature without replacement, the average rate at which the bills were taken was 0.005 per cent six weeks ago, while in the latest week the rate was 0.022 per cent. Excess reserves of all member banks on August 2 were estimated to be approximately $4,460,000,000 a decrease of $30,000,000 for the week.

* * *

New corporate financing in July aggregated $225,986,825 according to figures compiled by the Commercial and Financial Chronicle. The latest figure was down slightly from the June level, which was the highest for any month this year. In July, however, corporate issues for new capital purposes totaled $49,463,709, which compared with $30,241,064 in June and $21,240,443 in May.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1939 Indexes High	Low	July 29	Aug. 5
316 COMBINED AVERAGE	73.1	50.7	62.1	60.6
5 Agricultural Implements	119.4	81.4	95.9	91.8
6 Amusements	43.2	26.8	37.5	36.8
15 Automobile Accessories	92.3	55.2	75.0	74.9
12 Automobiles	12.8	8.1	10.3	9.8
11 Aviation (1927 Cl.—100)	182.7	128.2	152.9	148.0
3 Baking (1926 Cl.—100)	15.4	11.5	14.1	13.7
3 Business Machines	183.9	118.0	139.4	134.8
9 Chemicals	168.2	123.7	145.4	143.8
20 Construction	47.5	27.7	34.8	33.0
5 Containers	242.6	165.0	200.4	201.2
9 Copper & Brass	118.6	71.2	91.6	93.9
2 Dairy Products	32.1	23.6	32.1H	31.6
8 Department Stores	23.9	16.5	21.3	20.8
7 Drugs & Toilet Articles	53.5	40.4	49.4	47.7
2 Finance Companies	312.0	219.4	276.3	269.7
7 Food Brands	103.3	69.1	99.8	98.9
3 Food Stores	48.4	33.3	47.3	48.4H
4 Furniture & Floor Coverings	72.1	47.1	62.2	60.0
3 Gold Mining	1301.2	1123.7	1190.5	1206.8
6 Investment Trusts	28.1	19.2	24.1	23.1
4 Liquor (1932 Cl.—100)	193.1	143.0	155.7	153.5
9 Machinery	129.0	83.3	104.3	102.7

No. of Issues (1925 Close—100)	1939 Indexes High	Low	July 29	Aug. 5
316 COMBINED AVERAGE	73.1	50.7	62.1	60.6
2 Mail Order	90.5	69.2	88.4	86.8
4 Meat Packing	52.3	43.2	45.3	44.7
14 Metals, (non-Ferrous)	173.6	122.0	141.0	142.6
2 Paper	13.5	7.5	9.3	9.2
24 Petroleum	100.9	76.6	80.6	78.3
18 Public Utilities	62.6	44.9	58.2	59.8
4 Radio (1927 Cl.—100)	17.0	11.6	13.5	13.1
9 Railroad Equipment	61.6	33.7	42.4	40.6
22 Railroads	18.1	10.9	12.9	12.3
2 Realty	7.9	2.7	3.5	3.2
2 Shipbuilding	82.7	45.1	60.2	58.0
13 Steel & Iron	99.0	60.4	75.1	71.5
2 Sugar	20.1	13.3	15.5	15.6
2 Sulphur	153.2	113.0	127.8	124.7
3 Telephone & Telegraph	52.7	40.3	50.4	50.5
4 Textiles	45.0	27.4	44.1	43.9
4 Tire & Rubber	20.0	13.0	17.5	16.7
4 Tobacco	86.5	76.2	86.2	86.0
4 Traction	39.1	21.9	34.1	35.3
4 Variety Stores	244.4	189.3	241.6	237.5
20 Unclassified (1938 Cl.—100)	100.8	73.1	85.3	85.9

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Best & Company, Inc.

Selling around its low for the year, I am disappointed with 100 shares of Best & Co. at 55. I thought this store would benefit from the N. Y. World's Fair. Are sales and earnings sufficiently promising to warrant payment of last year's dividend of $2.32½? Am I right in assuming the stock has not discounted improved last half year prospects? —R. J., Indianapolis, Ind.

Sales of Best & Co. during the current fiscal year are understood to be showing moderate improvement over those of last year and the company is undoubtedly benefitting from the New York World's Fair, though business from this source may not come up to earlier expectations. This latter fact has probably resulted in some disappointed selling and this, in our opinion, is the most plausible and likely explanation for the decline which has occurred in the market price for the stock. But aside from any benefits which may be derived from World Fair visitors, Best is in an excellent position to share in improving purchasing power. The organization has had notable success in its policy of emphasizing styles and quality. Sales, while showing cyclical fluctuations, have shown a rising trend over the past few years and so far in the current fiscal year are understood to be only moderately below 1938, which was the highest in the history of the company. Wages and taxes, of course, tend to narrow profit margins, but strict control of costs has resulted in per share earnings better than the average department store. It is likely, therefore, that earnings for the current fiscal year may show some improvement over the $4.02 per share reported for the year ended January, 1938. Finances at the year end were quite satisfactory, with total current assets of $4,847,784 well in excess of total current liabilities of $749,180. Dividends on the common stock are expected to be about the same as last year and we feel that retention of this issue for its reasonable income return and moderate appreciation possibilities is the advisable course to follow.

Minneapolis Moline Power Implement Co.

Shall I hold 300 shares of Minneapolis-Moline common at 7½ for appreciation to my purchase price? I understand the company is beginning production of the smallest and cheapest tractor on the market. Do you believe that, with the keen competition in the field, this new development will increase sales materially?—I. G., Cleveland, Ohio.

Minneapolis Moline Power Implement Co. is expected to show a profit during the current fiscal year, but in all likelihood there will be no great difference from the 12 cents per share which was reported for the last fiscal year ending in October of 1938. The new low-priced tractor of which you speak has interesting possibilities from an earnings standpoint in the future, but has not been in production long enough to estimate what the near-term effects of this new addition to its already extensive line will be. The company is more dependent on the wheat crop than on any other, as the majority of its business is done in the Northwest section of this country, with only the minor portion obtained from other divisions. Crops in the Northwest have not been too favorable, which will work against earnings gains, but farm benefit payments are greater than last year, which may offset the decline from marketing income. Sales of farm machinery have shown a slightly upward trend since the early part of the year and thus volume for the current fiscal year may be somewhat above that of last year. However, net may be somewhat restricted by higher wages and other operating expenses. The future of the common stock is rendered obscure by reason of recapitalization which is almost inevitable due to the high total of arrears which exists on the preferred stock, amounting to $36 per share on May 15, 1939. Finances of the organization, according to the balance sheet at the end of the last fiscal year in October of 1938, were not overly favorable for while current assets of $12,214,856 were considerably greater than current liabilities of $2,149,471, current assets were composed almost entirely of inventories and accounts receivable with cash amounting to only $368,191, while among current liabilities were bank notes payable of $900,000. Thus, the common stock

cannot be said to have any great attraction marketwise and dividends are obviously out of the question for some time ahead, but for those who can assume the risk, we believe that retention for the time being would be advisable to await better quotations.

National Biscuit Co.

As a holder of 150 shares of National Biscuit bought at 28, I have been satisfied with its stable action. Now that there are indications of an upturn in business, however, I am wondering whether this stock will be outstripped marketwise by the cyclical type of stock which has been depressed this year. —G. T., Seattle, Wash.

Due to low ingredient costs and relatively well-sustained sales volume, National Biscuit Co.'s earnings recently have held up well, despite the lower average selling prices now obtaining on most items. Thus, earnings in the first quarter equalled 40 cents a share on the common stock, after preferred requirements, against 35 cents a share in the March quarter of 1938. Results in the June quarter were somewhat less favorable and per-share earnings on the common stock receded to 39 cents from 40 cents a share a year before, thereby bringing earnings for the six months ended June 30, last, to 79 cents a share, against 75 cents for the first half of 1938. Since low raw material costs also prevailed during the final half of last year, earnings gains over coming months probably will not be as pronounced as during the first quarter. Nevertheless, earnings for the year as a whole should approximate the $1.76 per share reported for 1938, thereby affording ample protection for the $1.60 annual dividend, especially in consideration of the strong financial condition maintained by the company. In an effort to improve sales volume, the company has given increasing attention recently to the promotion of its low-priced bulk goods, which are less susceptible to a falling off in consumer purchasing power than is true of the higher-priced packaged specialties. Moreover, steady progress has been made in reducing manufacturing costs through the adoption of the most modern and efficient types of baking and packing equipment. While National Biscuit, as is common with the food companies as a group, could not reasonably anticipate as great an increase in its business as the currently more depressed cyclical industries, long-term growth possibilities are not lacking. In the meantime, the stock provides a relatively secure return and if you are interested in that angle, as well as moderate price appreciation possibilities during any sustained business recovery movement, we would suggest maintenance of your position in the stock at these prices.

American Sugar Refining Co.

I have 200 shares of American Sugar Refining common bought at 29½ last year. Does the sugar price trend indicate that a deficit will again be reported this year or will governmental control of sugar as well as the Sugar Act itself soon begin to have a favorable effect? What is your advice?—S. M., Syracuse, N. Y.

Gradually improving prices for sugar over the coming months is expected and it is thus likely that American Sugar Refining Co. will not be forced to take the heavy inventory losses which were sustained in 1938, though it is highly improbable that earnings of the common stock could increase sufficiently to register any notable improvement over the deficit of $6.10 per share which was reported for last year, nor can its investment in National Sugar be expected to increase its income. Wages, taxes and selling costs will continue to be high and subsequently have retarding effect on earnings. While these factors are of a definitely pessimistic nature, some hope can be derived from the less restrictive attitude recently taken by Washington toward the sugar industry. Quotas have recently been reduced and it is conceivable that they could be further reduced or amendments made to the Sugar Act should results still be too unfavorable. But it may be said that American Sugar Refining Co. will be in a good position to take full advantage of whatever improvement may occur in the industry. The company is, of course, the largest domestic producer, with a capacity of approximately 8,000 tons daily. Finances of the organization at the last year end were very strong, with current assets totalling $32,216,726 against current liabilities of $4,941,606, and with cash alone of $11,807,300 being far in excess of total current liabilities. Any return to the company's formerly enviable dividend record on the common stock is most unlikely in the near future, but we believe that the long-term outlook for the organization warrants retention of your holdings at these levels, rather than acceptance of a sizable loss which would result from liquidation of your holdings now.

Endicott Johnson

I have 100 Endicott Johnson common at 43. If appreciation and the annual $3 dividend are reasonably assured, I would like to double up. Before doing so, however, I want to check on the report that a Czecho-Slovakian shoe company is planning a huge plant in this country. It is my opinion that Endicott Johnson faced terrific competition in former years from Czecho-Slovakia. Please advise.—E. M., Kansas City, Kans.

Endicott Johnson Co. reported earnings for the fifty-three weeks ending June 3, 1939, equivalent to $2.19 per share, which compares with earnings of $2.06 per share for the corresponding period of the year before. Shoe production has been running at levels which are expected to approach, if not equal, the output of 1937, and with firm inventory prices most of this improvement should be carried through to net. Production of Endicott Johnson Co., being in the medium- and low-priced group (with about 40% of its output being men's workshoes), should continue to respond to the better levels of industrial activity and generally higher consumer purchasing power. Competition in this field has always been keen and may become more so when the Bata Shoe Co., Inc., gets into production, but Bata's former advantage in Europe of extremely low labor costs will be

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Answers to Inquiries

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lost here. While the earnings trend of Endicott Johnson has been downward for several years, and no substantial reversal of this trend is looked for during the current fiscal year, nevertheless earnings should show some temporary improvement over the fiscal year ending in November of 1938. The $3 annual dividend rate would seem to be secure, at least for the present. Financial position of the company as of June 3, 1939, was satisfactory, with current assets of $32,270,347 being well in excess of current liabilities of $9,652,815. We feel, therefore, that while the outlook does not indicate any dynamic improvement over the near-term in the earning power of the company, prospects are sufficiently favorable to make retention of the common stock advisable at this time, especially in view of the yield afforded.

Homestake Mining Co.

I am holding 50 shares of Homestake bought at 65 for income and as an inflation hedge. What is your opinion? I am interested in the ore reserves of this company and the indicated life of its mines. Is the gold-content of the new ore body discovered more than a year ago satisfactory?—L. N., Toledo, Ohio.

Operating the largest gold producing property in the United States, the Homestake Mining Co. has maintained an enviable earnings record over more than sixty years. The property is located in South Dakota, where large proven ore reserves are sufficient for many years of operation at the present rate. With no indication of any decrease in the $35 per ounce price for gold, indications are that earnings of the company will continue around present levels and, in view of the strong financial condition, maintenance of liberal dividend payments is indicated. Dividends are being paid at the rate of 37½ cents a month, or on the basis of $4.50 annually, which gives an excellent return on present market price of around 63 for the stock. The discovery of the new ore body to which you refer has unquestionably greatly extended the potential life of the mine, although costs of production, due to the indicated lower gold-content, may rise and thereby restrict profits. Nevertheless, with major ore reserves already blocked out sufficient to last for more than twelve years at the recent operating rate, indications are that dividends will continue liberal and that earnings will remain around the $3.45 a share level shown for 1938. Hence, and in consideration of the ability of this type of business to withstand shocks to the economic system generally, we believe that holdings may well be retained, at least for the present.

Purity Bakeries Corp.

Please give me your opinion of 100 shares of Purity Bakeries bought at 23. I understand that 1939 first half earnings are substantially above last year. Is this due to any special situation of a non-recurring nature, or does it mark a definite upturn in the earnings? Are increased dividends in view? Shall I add to my holdings?—B. D., Chicago, Ill.

The Purity Bakeries Corp. is engaged in the production and distribution of bread, cakes and related food products in a number of large cities located in the East, Mid-West and South. The sharp improvement which occurred in the earnings of the company last year has been carried over into the current year, even more emphatically. In the sixteen weeks ended April 22, 1939, net profit was $389,690, or 51 cents per common share, as against $186,305, or 24 cents a share in the similar period of 1938 and $1.52 per common share in the full year 1938. Seasonally the spring of the year is a period of rising sales and profits for baking companies. For the first half of the current year, it is estimated that the company will show approximately $1.15 per share, as compared with 60 cents earned per share in the initial six months of 1938. The improvement of late has been due in a large part to liquidation of unprofitable subsidiary stores in Chicago and Philadelphia which had been a drain on earnings for years. The company has maintained its sales volume and we believe that a definite upturn in earnings has taken place. If profit margins continue to hold up during the second half year, there would be the possibility of higher dividends. We would counsel adding to your holdings for income and gradual enhancement in value.

Penick & Ford, Ltd.

Your opinion of 200 shares of Penick & Ford bought at 57 would be appreciated. I was somewhat disappointed with first quarter earnings as they were below the similar period of 1938 and the final quarter of 1938. Does the continued low price of corn indicate a great net and, if so, are the prospects for increased dividends favorable?—N. C., Los Angeles, Calif.

Penick & Ford, Ltd., Inc., ranks as the second largest manufacturer of corn products, in addition to which, the company has an important line of molasses, cane and maple syrup, and dessert powders. Normally about two-thirds of the company's output is sold in bulk to food, textile and various other basic industries, with the remainder distributed to grocery chains and other retail outlets under nationally-advertised trademarks. Although consumption of these products normally shows little fluctuation, earnings of Penick & Ford depend to a large degree upon the price of its principal raw material—corn. In the full year 1938, the company earned $3.09 per share of common stock, as against only 74 cents a share in 1937, a year of a crop shortage which necessitated premium prices for corn, and imports from the Argentine. Dealer stocks were largely replenished in the final quarter of 1938, and consequently the first quarter of the current year showed a falling off in sales and earnings from a year earlier. Marked improvement took place in the second 1939 quarter and for the first half of the current year the company earned $1.54 a share, against $1.50 a share in the initial six months of 1938. The bountiful corn crop indicates continued satisfactory earnings and a dividend of at least $3 annually seems assured. We recommend retention for investment purposes.

Angostura-Wupperman Corp.

Last year I bought 300 shares of Angostura-Wupperman at 3½, but am worried by the recent passing of the dividend and my paper loss. It was my understanding that this company has what amounted to a monopoly, but the market action of the stock appears to indicate that its well-known product is losing ground. What is the earnings and dividend outlook?—W. J., New York, N. Y.

The Angostura-Wupperman Corp. manufactures and distributes what is probably the outstanding brand of bitters in the world, although it does have some competition from

local and for the most part unadvertised brands. The company's sales tend to follow general business trends, although profit margins are relatively stable. With prohibition repeal in this country, earnings of the organization jumped sharply to $107,635, equal to 54 cents a share in 1934 from 20 cents a share in the previous year, but for the most part earnings have averaged below that figure recently and in 1938 were equal to only 6 cents per share. Advertising expenses bulk large and in connection with the omission of the dividend for the second quarter of the current year, it was announced that sales and advertising would be intensified, and accordingly it was believed prudent to defer payments on the stock. Net income, as a matter of fact, during the first five months of the year, is understood to have run ahead of the like period of 1938, and indications are that earnings for the year as a whole will compare favorably with last. Since working capital position appears adequate for the normally modest needs of the company, therefore, any improvement in earnings could be promptly followed by resumed dividend payments. Costs of operation are understood to have been lowered through moving of the plant to the Virgin Islands in 1938, where advantage can be taken of low rum prices at the Government-operated plant. While the company's stock is not one which appears to possess any outstanding possibilities of price appreciation in the market, a moderate comeback would seem to be a distinct possibility, and since dividends may well be resumed later on, speculative holdings need not be disturbed, in our judgment.

American Brake Shoe & Foundry Co.

Would you advise holding 100 shares of American Brake Shoe & Foundry common bought at 52 for income and appreciation? Earnings so far in 1939 have shown an encouraging gain, but I realize that the first half of 1938 was a poor business period. Is the railroad equipment outlook sufficiently promising to warrant continued earnings gains?—E. P. Boston, Mass.

The American Brake Shoe & Foundry Co. manufactures railroad brake shoes and parts, track fixtures and freight-car wheels; brake shoes, linings, etc., for the automobile manufacturers, and forgings and castings for railroad and general industrial use. While the railroad business accounts for about 50% of the total volume, the company is continuing the policy of branching out into new but related fields. The company's earnings do not fluctuate as widely as the average railroad equipment concern, as about 90% of its railroad business is for replacement, with brake shoes bulking large in volume. While the company does a sizable original equipment business with the automobile industry, sales here are also largely for replacement. Earnings in the first three months of 1939 amounted to $408,937, equivalent after dividend requirements on the preferred stock to 44 cents per common share, compared with 22 cents a share on the junior issue. The improvement is reported to have continued during the second quarter of the current year and earnings for this period may have been better than for the initial three months. The near-term outlook for orders for original equipment by the railroads is not promising, but the sharp improvement shown by the company thus far in 1939 augurs well for the future, granting that operations were compared with a period of 1938 when general business was slack. We look upon the issue as one of the attractive cyclical stocks with long-range speculative possibilities, and recommend maintenance of present holdings of 100 shares.

Profits from Expansion Delayed

(*Continued from page 455*)

preferred, to only 12 cents a share on the outstanding common stock, whereas in the March quarter of 1938 the net profit was equivalent to 81 cents a share of common. However, for the three months to June 30, 1939, 92 cents a share was reported, compared with 44 cents a share for the corresponding previous period—a sharp improvement.

Besides helping the old lines, business improvement should be a helpful factor in taking the sting out of losses in the newer developments. While the demand for beer cans and packers' cans is sometimes subject to

other influences, business improvement certainly should help the establishment of Crown Cork & Seal's paint, varnish and general line cans as a whole. Apart from the influence of fluctuating business, it is to be noted that the factor of dynamic growth in the demand for general line cans is still far from exhausted.

Taking them all in all it is evident that Crown Cork & Seal has major "credits" to offset the losses it has sustained so far in the more important of its new ventures. It would be dangerous to say flatly that of the conflicting evidence the favorable far outweighs the adverse, but certainly the former is sufficiently convincing to justify speculative consideration of this company's stock.

New Conditions Favor Utilities

(*Continued from page* 453)

Detroit Edison serves the Detroit industrial area and an extensive adjoining territory with electric light and power. Despite substantial dependence upon industrial load, and automobile industry specifically, earnings over the past six years have averaged about $6.66 a share for the common stock. Net in 1938 was equal to $6.16 a share and for the 12 months to June 30, last, was equivalent to $7.54 for the common, compared with $5.85 in the same period a year ago. Capitalization moderate and finances strong. Selling at 124, the shares yield 4.8% on the basis of the present $6 dividend.

Consolidated Gas, Elec. Lgt. & Pwr. of Baltimore has had a remarkable record of stable earnings and the present $3.60 dividend has been earned by an adequate margin in every year since 1929. About 70% of revenues contributed by electric power sales, balance derived from gas and steam. Earned $4.06 a share in 1938 and showed the equivalent of $4.40 a share for the 12 months to June 30, last, vs. $4.14 a year ago. Recent quotation, 83; yield, 4.3%.

Public Service Corp. of N. J. provides electric, gas and traction service throughout the greater part of New Jersey. Territory embraces a wide variety of industrial activities and is densely populated. Of gross revenues, sales of electricity contribute about 57%, with the balance about equally divided between gas and transportation facilities. Large residential load makes for better-than-average stability of revenues and earnings. Dividends liberal. Erned $2.34 a share for the common in 1938 and paid $2.20 in dividends. Earned $2.66 for the 12 months to May 31, last, and may pay at least $2.40 this year. On this basis the shares yield about 6% at recent levels around 40.

Southern California Edison is the second largest utility on the Pacific Coast. Company's territory is important both agriculturally and industrially, and is one which has enjoyed rapid growth. Earnings in 1938 were equivalent to $2.10 a share for the common stock, and total dividends, including extras, amounted to $1.75. Current earnings have been running slightly ahead of a year ago and estimates place six months' net at a figure equal to about 80 cents a share. Has paid $1.37½ in dividends this year and total payments should at least equal last year's. Recent quotation 28.

Business Rally or Basic Recovery?

(*Continued from page* 432)

which the New Deal has utterly failed to solve with six years of efforts to increase "consumer purchasing power."

When our economy is in workable balance and functioning somewhere near maximum efficiency —as was the case in the generally prosperous 1923-1929 period— "confidence spending" provides the prosperity margin over and above "subsistence spending." Confidence or lack of confidence—call it hope or optimism, if you will—largely determines the total demand for a great variety of durable goods and for construction. Such demand is now in a rising trend but the rate of rise is moderate, the level is still in a depression range and we do not have evidence to support conviction that what we are seeing is more than a relatively short upward cycle of a character and scope not greatly different from the short-lived recovery of the second half of 1938.

Against increased national income being created by improvement in industry and commerce there are partial, if not complete, offsets in lower farm income and in moderate reduction of the Government's net monthly contribution to national purchasing power as represented by the difference between its cash spending and its cash revenues. It would not be surprising, therefore, if national purchasing power tended to flatten out at its present level over the next several months or, at best, experience only a relatively slight advance. Although orders in hand and the momentum of the upward cycle can logically be expected to maintain a generally favorable business trend into the fourth quarter, a very pertinent question is nevertheless raised: to wit, where can additional significant economic stimulation come from?

In the writer's opinion there are several possible answers—possible, it must be emphasized, and not certain.

First, there is reasonably clear evidence that consumer purchasing power available for "confidence spending" is at least moderately greater than the level of such spending. Therefore, it is possible that further increase in the optimism of consumers—growing out of present favorable economic and political trends in this country—could induce additional marginal consumer spending, thus bringing increased activity in durable goods.

Second, there is possible economic stimulation of substantial importance in the debt-incurring potential of consumers. Since the economic nose-dive in the closing months of 1937, there has unquestionably been a rather large net reduction in the public's outstanding installment debt. We see evidence of this, for example, in the fact that a substantially larger than normal proportion of automobile sales is being financed on a cash basis at the present time. Taking an inquiring look at the economic and political weathervanes, Johnny Q. Public may conceivably increase his "on time" buying from here on.

Third, it is possible that business managers—notably sensitive to political as well as economic trends—may undergo a cumulative rise in con-

fidence, and that this may be reflected not only in a faster tempo of inventory buying but also in substantially increased capital outlays.

It should be noted that all three of these possible sources of additional recovery depend in very important measure upon clarification of Government-business relationships and that none is immune to lingering doubts regarding the near term European potentialities. Indeed—due to months of dramatization of European news in our press and over the radio—consumers are probably even more cautious than business men as the world awaits the widely predicted late summer or early autumn war crisis.

Reasonably plain it is that the next two months or so should definitely end the war uncertainty, one way or the other, for a very considerable time to come. Apparently plain also is a definite political change whereby many who have been looking toward Washington with fear can begin to look in the same direction with hope. That's something—in fact, a great deal.

As the Trader Sees Today's Market

(*Continued from page* 444)

descending upper side were constructed about this chart since last October its apex would be perhaps six months in the future. Occasionally such a formation will stay within the lines laid out for it until the apex is neared, but more frequently a breakout on one side or the other comes at an earlier date. The chart seems to favor an eventual penetration of the upper rather than the lower line, but this is conjecture until more decisive action occurs.

The behavior of the steel group has varied considerably over the last year, always mercurial but frequently changing in relation to the rest of the market. After a rapid advance from the September low to a peak in November more than 50% higher, failing to stop with the broad average in October, action turned poor in 1939 and the March rally stopped well below the December low. Since April, however, action has been somewhat better and although the current rise has not gone far enough to penetrate by any decisive margin the line formed by previous falling tops the upturn so far has a promising appearance.

The Sugars have been the only group among those discussed here to make a new low since the 1933-37 recovery. Falling tops have persisted since last July and there has been no rally of any consequence in recent weeks. Until market action undergoes a definite change this group is among the least attractive on technical grounds for either investment or speculation, despite the fact that the long downtrend has undoubtedly put some of the stocks in a position where improved outlook would produce wide gains.

The Tires and Rubber group has followed a series of declining tops lasting until March with a smaller series of rising bottoms which have continued right up to recent weeks. At the April low these issues held 30% above their low point of 1938 and almost as far above their bottom in 1937. The line of descent with its starting point at the top of last November is as yet unbroken but action since April suggests that strength in the general market will find this group doing relatively very well. The scale used in the chart is large and may obscure the fact that the rubbers are only about 17% below their high for the whole recovery movement and are 75% above their 1938 low.

The Tobacco group registered a succession of rising tops and bottoms until February, when a sharp decline took place. The April low, however, was above that of last September and the rally was fairly sharp for a group not usually considered volatile. The high for 1938 was exceeded in February of the current year and the most recent rally has again succeeded in penetrating the 1938 top although not quite setting a new high for 1939. The group is only about 13% below the 1937 high and has shown a tendency to stall at several points slightly above the 85 level on the chart. This is undoubtedly excusable in the case of a group making better progress than the market as a whole and it may be that on the current attempt Tobaccos can get through to new high ground for the recovery. Action in the last three months has been promising, with the test of longer term trend apparently soon to come.

Stocks Undervalued on Earnings and Prospects

(*Continued from Page* 464)

1938, earnings were equal to $3.52 per share for the outstanding common stock, but this year per-share earnings may be slightly lower, owing to the increase in the number of shares from 716,892 to 737,264. Ahead of the common stock are 180,000 shares of 5% preferred stock.

Last year the company paid regular dividends of $1 per share quarterly plus an extra of $1. Despite the possibility that current earnings may fall slightly behind the comparative results of a year ago, an adequate margin would be provided for dividends. In fact, it is not unlikely that the company may again pay an extra dividend this year. Recently quoted around 73, the shares yield 5.4% on the basis of regular dividends only. In addition, therefore, to being attractive on an income basis, the shares are reasonably priced in relation to indicated earnings, suggesting the likelihood of further gradual price appreciation over the months ahead.

The Stockholder's Guide

(*Continued from page* 457)

year ago. Approximately half of the reports show the latest income statement compared with prior periods and only one-third give the sales figures. The same proportion present balance sheets at the mid-year, while less than one-fifth make any attempt to supply a comparison of assets and liabilities with those of six months or a year ago. All of those examined are naturally among the prompter reports and a number go to the trouble of impressing upon stockholders the nature and advantages of the items they have for sale. Practically all could be improved in various ways, but they are growing steadily better; if every stockholder would take the best report he receives each quarter and mail it with a brief comment to the company which issues the poorest one, or which issues none at all, the improvement would be greatly hastened.

Rayon Enters New Phase of Dynamic Growth

(*Continued from page* 443)

pressure was late in 1937, when a sharp decline in consumption in the closing months of the year caught producers unaware and before output could be curtailed, stocks increased nearly tenfold in about six months. Prices of viscose yarn dropped from 63 cents to 49 cents a pound, while acetate prices declined from 63 to 52 cents. At the present time viscose yarn is selling for 51 cents a pound.

Although prices have as yet shown only minor recovery, this need not be set down as a particularly unfavorable factor in the industry's prospects at this time. More important is the fact that consumption is rising and stocks are being reduced. Stocks in producers' hands at the end of June totaled only 32,800,000 pounds, or substantially less than half the June, 1938, figure of 67,000,000 pounds. The manufacture of rayon is essentially a volume industry, with fixed costs bulking large, and rising production and consumption are more important in the current setting than higher prices. The trend of rayon prices has been steadily downward over a long period of years, and it is quite conceivable that no significant markup from present levels will materialize. In the meantime, all leading manufacturers have been able to cut production costs.

On the basis of known plans, productive capacity of the domestic rayon industry will be increased to 400,000,000 pounds annually by next spring, an increase of about 35,000,000 pounds since the end of 1938. However, with output in the first half of 1939 running at an annual rate of better than 385,000,000 pounds, enlarged productive facilities can be readily supported.

At the present time 18 companies comprise the domestic rayon industry. Of these about half are small local units accounting for an aggregate of less than 10% of total productive capacity. American Viscose Corp., control of which is owned in England, is the largest producer, accounting for about 25% of domestic capacity. Du Pont ranks second and Celanese Corp., third. Although the bulk of the rayon output by American Viscose and du Pont is viscose filament yarn, both companies also produce acetate yarn, while Celanese Corp. manufactures acetate exclusively. Du Pont has developed a new synthetic fiber known as nylon, which has no relation to rayon but which to an even greater extent than rayon threatens to displace silk in the manufacture of hosiery. Celanese is engaged in the construction of a new plant, in which manufacture of a new yarn developed by the company will be started. It is claimed that this new yarn will be four or five times stronger than present yarns and suitable for the manufacture of hosiery and tire fabric. In addition, Celanese has licensed several other rayon producers to manufacture abraded yarn which produces a woolly effect in the finished fabric.

With the completion of its new plant Industrial Rayon will have an estimated productive capacity of 32,000,000 pounds of rayon yarn annually, making it the fourth largest unit. Industrial Rayon uses the viscose process exclusively, as does North American Rayon, the fifth ranking producer. Tubize Chatillon, with an annual capacity of 20,000,000 pounds, uses both the viscose and acetate processes in the ratio of about 4 to 1 respectively. A subsidiary of Eastman Kodak, Tennessee Eastman Corp. is an acetate producer, with an estimated annual capacity of 24,000,000 pounds.

Of the foregoing companies, American Viscose, du Pont, Celanese and Industrial Rayon in addition to yarn also produce staple fiber. In this division also, American Viscose is the largest single producer but the other companies plan to enlarge their facilities for producing staple fiber.

Aided by increased production

★★★ IN THE NEXT ISSUE ★★★

New Light on Forces Dominating the Future of Business —What Other Influence Is Needed For a Sustained Recovery?

By JOHN C. CRESSWILL

and consumption this year, all divisions of the rayon industry promise to make a marked improvement on their 1938 showing. The extent to which this improvement will be reflected in the earnings of leading companies will, however, depend in a large measure upon their ability to maintain output and sales at a comparatively high level throughout the balance of the year—a level sufficient to overcome the failure of prices to show any appreciable recovery from the precipitous decline of 1937-38. Over a more extended period, and with prospects continuing to favor expanding consumption, present and perhaps even lower prices would afford a satisfactory margin of profit. But so far as the current year is concerned, cognizance must be taken of the possibility that too short a time has yet elapsed to permit volume to rise sufficiently to offset entirely the lower margin of profit. It has been estimated that as a result of the reduction in prices last year, the average amount realized by producers, and available for taxes and income, is about 10 cents a pound less than in 1937. This would mean that a pound of 150 denier viscose yarn selling at 51 cents at the present time, even with a sizable volume and allowance for lower costs, will yield only 7 to 10 cents a pound before taxes.

If as appears likely that viscose yarn manufacturers will be somewhat pressed to maintain their share of the market, and other things being equal, earnings of leading viscose producers may tend to stabilize. On the other hand, the factor of growth would appear to favor those producers with an important stake in the acetate and staple fiber divisions of the industry.

Chrysler—Fastest Moving Motor

(Continued from page 441)

As the sign of a return to a solid base there is reason to hope that the tendency to pay cash or refrain from buying shown in last year's figure may be the forerunner of another era of economic improvement and rising automobile sales.

The terms on which financing is offered to the public have a direct effect on car sales. Larger required down payments or more rapid payment tend to discourage the buyers who are debating a purchase, and it is therefore to the interest of the manufacturers to see that the most favorable possible terms are offered, just as it is to the interest of the finance companies to avoid becoming over-extended when a slump sets in. There is little doubt that this has had an effect on the price policies of the manufacturers, presenting an argument against drastic price reductions during periods of declining sales. To the man who has recently bought a car on time the spectacle of an immediately subsequent cut in price of that model is an invitation to let the finance company take the car back—his equity may be almost eliminated by the change in price. While it would have to proceed much further and there is no indication that such a trend is likely, the reduction in percentage of times sales would theoretically allow the makers more latitude in lowering prices to stimulate waning sales, and the divorcement of interest from those of the finance companies would tend in the same direction. With competition for the market becoming steadily more strenuous it does seem likely that future prices will show greater sensitivity to sales trends.

The automobile business will continue to be a marginal one, entitled to just so much of the consumer's excess cash as it can secure. With sales subject to material and psychological factors tending to create wide leverage and with earnings even more volatile, no company which depends on its automobile business is going to show any substantial profits during depressions. Yet some of these enterprises are suitable for investment over the long-pull if bought right, and they are eminently suitable for investment of a cyclical nature, offering not only broad price

DIVIDENDS RECENTLY DECLARED

Company	Rate	Period	Stock of Record	Payable
Abbotts Dai-ies, Inc.	.25	Q	8/15	9/1
American Chicle	1.00	Q	9/1	9/15
American Home Products	.20	M	8/14	9/1
American Tobacco	1.25	Q	8/10	9/1
American Tobacco, "B"	1.25	Q	8/10	9/1
Anaconda Copper Mining Company	.25	..	9/5	9/21
Barnesdall Oil	.25	Q	7/15	8/1
Best & Company	.40	..	7/25	8/15
Bethlehem Steel	.50	..	8/25	9/15
Bristol Myers	.60	Q	8/15	9/1
Brooklyn Edison	2.00	Q	8/11	8/31
Colgate Palmolive Peet	.12½	Q	7/25	8/15
Consolidated Edison of N. Y.	.50	Q	8/11	9/15
Continental Can	.50	..	7/25	8/15
Dow Chemical	.75	..	7/29	8/15
General Foods Corp	.50	Q	7/25	8/15
Hazel-Atlas Glass	1.25	Q	9/15	10/2
Homestake Mining Co.	.37½	M	8/19	8/25
Manhattan Shirt Co	.20	Q	8/10	9/1
National Lead	.12½	Q	9/15	9/30
New York Air Brake Co	.50	..	7/21	8/1
Noranda Mines	1.00	..	8/21	9/15
Otis Elevator Co	.25	..	8/25	9/20
Owens-Illinois Glass	.50	..	7/29	8/15
Pacific Lighting	.75	Q	7/20	8/15
Penick & Ford., Ltd	.75	..	9/1	9/15
Pepperell Mfg. Co	2.00	..	8/7	8/15
Phillips Petroleum	.50	Q	8/4	9/1
Proctor & Gamble	.50	Q	7/25	8/15
Savage Arms Corp	.25	..	8/10	8/21
Servel Inc	.25	..	8/17	9/1
Southern Cal. Edison Co., 6% Pfd. B ($25)	.37½	Q	8/19	9/15
Spiegel, Inc	.15	..	7/17	8/1
Tidewater Asso. Oil	.15	..	8/10	9/1
U. S. Playing Card Co	.50	Q	9/15	10/2
Warren Foundry & Pipe	.50	Q	8/15	9/1
Westinghouse E. & Mfg Co	.75	..	8/8	8/31

Q—Quarterly. M—Monthly. All declarations are on common stocks unless otherwise noted.

swings but substantial dividend returns as well.

Chrysler has in its favor a record of growth which has not yet been ended as far as can be seen. At various times in the fairly recent past it has appeared that this company along with its competitors was doomed to the "profitless prosperity" we hear so much about. Wages have been rising and the expensive delays of strike after strike have interfered with the normal course of production. Nevertheless the company has given the most practical answer to doubters of its earning power in the shape of several excellent income statements over the past year.

Earnings of $11,638,290 in the first quarter were equivalent to $2.67 per share on the 4,351,132 shares of common stock outstanding, and the report for the second quarter is expected to show earnings almost as satisfactory. A dividend of $1.00 was paid in March and another of $1.50 in June. With a strong cash position, Chrysler can be expected to treat its stockholders generously in the matter of dividends, but will probably reserve the bulk of disbursements for the year-end, as in the past. Last year only $2 was paid in dividends out of total earnings of $4.32, but provided no interruption to recovery interferes, this year's payments should be relatively larger.

During 1938 the company spent $18,246,000 on additions and improvements to its plant and equipment, including the cost of a new truck plant at Detroit in which Dodge trucks are now produced. Most domestic plants are in the vicinity of Detroit, but there are also three in Indiana and one each in Ohio, Arkansas, and California, with air conditioning equipment produced at Dayton, Ohio. Foreign plants include two in Canada, one in London and one in Antwerp, and assembly units throughout the world. Foreign business normally accounts for 10 to 15% of the company's total, while supplementary activities such as the production of marine and industrial engines are as yet unimportant to Chrysler earnings, although the F. T. C. report referred to earlier shows that "Other products" have enjoyed a relatively wide margin of profit on their small volume.

Having ended a good first half, Chrysler is now about to enter its new model year with a good chance of further extending its proportion of the automobile market. The percentage has already been stepped up from below one-fourth during the slump of a year ago to substantially above that figure in early 1939. One of the innovations being watched closely by the industry is the new Fluid Drive being installed on some of the more expensive Chrysler models. Clutch and transmission present some of the knottiest problems for the automotive engineer and experiments are being conducted by all makers with the idea of eventually eliminating the gears now in use or controlling them in a better way. The Fluid Drive uses oil set in motion by the engine to impart that motion to the wheels. It results in smoother operation and does away with gear shifting except in reverse and a standby low speed. Whether it or a development along its lines is to be the best answer to the problem remains to be seen; if Fluid Drive should be the solution Chrysler would have scored another and extremely important victory within its industry.

The one big question of the immediate future, though, is how much the American public will be willing to spend on the new Buicks and Chevrolets, Fords, Plymouths and Dodges. After a serious letdown in buying such as occurred somewhat over a year ago precedent is in favor of a fairly well sustained demand for perhaps a couple of years, perhaps longer. Should the current optimism of the leading manufacturers turn out to be justified, Chrysler would be very likely to extend not only its share of the business but its actual sales totals to new records. What is more important, the ability to turn sales into profits would, if we rely upon the recent trend in this respect, also work toward new high ground. As a speculation or "cyclical investment" capable of wide price appreciation under such conditions as described, Chrysler is undoubtedly one of the most promising equities among the market leaders. At 82 the stock is only a few points below its highs for this year and last, up 130% within a comparatively short time; yet Chrysler has by no means discounted its full possibilities if we are actually in the course of another sustained upswing in general business.

Abbott Laboratories

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the new preferred stock issued during the year. But the company has again resumed its habit of reporting new earnings records on the equity stock; net income for the first half of 1939 was equivalent, after preferred dividend requirements, to $1.43 per common share, as compared with $1.24 for the like 1938 period.

The 19,955 shares of $100 par 4½% cumulative convertible preferred issued last year constitute the only capital claim senior to the common stock since the company has no outstanding funded debt. Each share of the preferred, currently quoted around 137 or 30 points above call, is convertible into two shares of common at a price of $47.62 per common share. Conversion of the preferred, which, of course, would be forced in the event of call and, in any case, will become profitable from a yield standpoint with only a slight further increase in common dividend payments, would result in no dilution of common share earnings at present profit levels. Number of common shares now outstanding is 672,094 against an authorized total of 1,000,000.

Abbott's finances leave little to be desired. Of total assets of $11,632,965 on December 31, 1938, current items accounted for $8,060,688 and were about eight times current liabilities of $1,014,435; cash and marketable securities alone amounted to $2,933,474. About one-third of original cost of fixed property has been charged off to depreciation, while intangibles are carried at a nominal $1. There were no bank loans outstanding at the year end.

Such, in brief, is the story of one company's growth and development in a field where marketing problems are almost unique and where production standards are as high as any. The company has built its success on technical skill, concentrated sales efforts, market research and chemical research that has resulted in some of the most valuable proprietary formulas in the trade. But all these together constitute the most valuable formula of all: Abbott's formula for profits.

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